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**PERFORMANCE MEASUREMENT OF LOCAL GOVERNMENT IN
INDONESIA**

by

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ABSTRACT

This study is about public sector performance measurement in the context of developing economies; more specifically, the study focuses on local government performance measurement systems as applied in Indonesia. Although there have been numerous research studies examining performance measurement, most empirical work has been undertaken in the context of developed economies. Performance measurement research in the milieu of developing economies is still very much underdeveloped and the progress is considerably much slower than those in developed economies. This study adopts an interpretive approach and applied case study research method in order, to develop an understanding of a) what drives the new performance measurement b) how it is designed and c) how it is used? The findings show that performance measurement in the context of developing economies tends to be driven by different reasons than compared to those developed economies. The findings also indicated developing economies encounter various challenges in designing and implementing performance measurement which eventually affected the use and usefulness of performance measurement. This study thus contributes to improve our understanding of the design, implementation and use of performance measurement in the context of developing economies. More specifically, it improves our understanding regarding (i) internal and external driving forces for performance measurement initiatives in the developing economies, (ii) the effectiveness of design, implementation and use, (iii) technical, organisational and institutional factors influencing design, implementation and use and the complex interactive effects of these three categories of factors, (iv) the interdependence between design, implementation and use, and (v) the complex conflicts of interest among different stakeholders in this context.



In The Name of Allah, The Most Gracious, The Most Merciful

All the praises and thanks be to Allah, Who has sent down to His slave (Muhammad) the Book (the Qur'an), and has not placed therein any crookedness. (QS 18:1)

Say (O Muhammad to mankind). "If the sea were ink for (writing) the Words of my Lord, surely, the sea would be exhausted before the Words of my Lord would be finished, even if we brought (another sea) like it for its aid." (QS 18:109)

(Al-Qur'an, Surah 18. (Al Kahf) verses 1 and 109)

I dedicate this thesis for my dearest parents, teachers, sisters and brothers

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CHAPTER 1

INTRODUCTION

1.1 Background

The intense interest of many governments in performance measurement is reflected in the statement: “performance measurement, of necessity usually limited to non-financial measures, now pervades all government discourse even if its practice is very diverse” (Jones, 2011, p. xxx). Jones (2011) is supported by a study which examines performance measurement in six developed economies (Bouckaert and Halligan, 2008): Australia, Canada, the Netherlands, Sweden, the United Kingdom and the United States. Another study (Rhodes et al., 2012) provides a brief review of performance measurement initiatives in seven countries. Rhodes et al. (2012) however, includes both developed economies (Ireland, Italy, Portugal and Spain) and developing economies (Brazil, Ghana and Indonesia). Then, a development agency based in Germany (GIZ) has reported the establishment and progress of the local/regional government performance measurement systems applied in the Philippines, Nepal, Paraguay and Indonesia (Taraschewski and Wegener, 2011).

The performance measurement initiative tried out in Indonesia and discussed in Taraschewski and Wegener (2011) is the *Evaluasi Penyelenggaraan Pemerintah Daerah* (EPPD), or ‘Evaluation of Local Government Governance.’ The initiative was introduced in February 2008 through Government Regulation No. 6/2008 and comprises three measurement systems. The first is *Evaluasi Kinerja Penyelenggaraan Pemerintah Daerah* (EKPPD) or ‘Evaluation of Local Government Governance Performance’ which focuses on measuring the governance

aspect of local government and public services it delivers. The EKPPD is an annual measurement system.

The second measurement system is *Evaluasi Kemampuan Penyelenggaraan Otonomy Daerah* (EKPOD) or ‘Evaluation of Local Government Capacity to Implement Decentralisation.’ The EKPOD is designed to assess the capacity of Indonesian local government to implement decentralisation policy. This differs from the EKPPD in that it is conducted conditionally. More specifically, the EKPOD is carried out only when the performance of a particular local government is judged to have been low for three consecutive years. Finally, the third component of EPPD is *Evaluasi Daerah Otonom Baru* (EDOB) or ‘Evaluation of Newly-established Local Government.’ The EDOB is specifically designed to assess the newly-established autonomous regions¹ (that is, regions which have been established for less than three years). This is conducted every six months. It is unrelated to the first two and is thus not included in this study.

The EKPPD was firstly implemented in October 2008 and used to assess the performance of Indonesian local government for the fiscal year ended 31st December 2007. Up until now, local government performance evaluation using the EKPPD system has taken place six times. The EKPOD however, has not yet been implemented, and this study therefore focuses on the first measurement system (EKPPD). An understanding of the EKPPD cannot however be gained in isolation from the EKPOD, which this study therefore includes a brief discussion of. This is because the EKPPD and EKPOD are interconnected. More specifically, implementation of performance evaluation using the EKPOD system is conditional to the results of the performance evaluation using the EKPPD system, as indicated earlier. Furthermore, there were

¹ The term ‘region(s)’ in this study refers to both local and regional governments.

political considerations behind splitting the measurement into EKPPD and EKPOD, as will be explored and discussed further in Chapter 6.

1.2 Motivations

Research into performance measurement in developed economies has been far more extensive than that carried out in the context of developing economies. As a result, research in the former context has covered a wide range of topics, such as (i) the evolution of performance measurement (see Williams, 2004), (ii) factors which influence performance measurement (see for example Cavaluzzo and Ittner, 2004; De Lancer Julnes and Hozler, 2001), (iii) the capacity needed by those implementing performance measurement for it to be successful (see for example Berman and Wang, 2000), and (iv) the use and usefulness of performance measurement (see Propper and Wilson, 2003). There is still however little known about the state of performance measurement in the developing economies context. A theoretical paper by Mimba et al. (2007) argues that the increasing demand for performance information in developing economies could be connected to the recent public sector reforms (including decentralisation) underway in most of these economies. Moreover, Mimba et al. (2007) also argue that the specific characteristics of the public sector in developing economies influence performance measurement in this context.

Two studies have focused on performance measurement in Indonesia. The first is the empirical study by Mimba et al. (2013) which was based on cases studies of local agencies (public works and health) in one district and one municipality in Bali province. The main finding of this study suggests that the district head/mayor is seen as the most powerful stakeholder by the heads of local agencies; in formulating performance indicators therefore, these local agencies place emphasis on the indicators which the district head/mayor is interested in, instead of the

indicators which are the interest of other stakeholders (local parliament and the national government). A second empirical study was carried out by Akbar et al. (2012). In contrast to Mimba et al. (2013), Akbar et al. (2012) was based on a large-scale survey. Its main finding suggests that Indonesian local government reports performance merely for the purpose of accountability. Both studies rely on institutional theory (i.e. New Institutional Sociology) to interpret their findings.

Akbar et al. (2012) are concerned with a performance measurement system applied by Indonesian local government called *Laporan Akuntabilitas Kinerja Instansi Pemerintah* (LAKIP)². LAKIP was introduced by the Government of Indonesia much earlier³ than the recent measurement system (the EKPPD). While the EKPPD is specifically designed for local government, LAKIP is applied to all governmental institutions, including local government. Mimba et al. (2013) discuss various types of performance information produced by local government, which includes performance information produced from LAKIP but not from the EKPPD.

The fact that the requirement for LAKIP was still in force when the EPPD was introduced in 2008 provided the motivation for me to conduct this research. I was interested in investigating the reasons behind the new performance measurement initiative. If the new measurement system was aimed at replacing the existing system, why was LAKIP not terminated when the regulation on the EPPD came into effect? I was also interested in understanding the characteristics of the EKPPD: what are the specific features of this new measurement system? What is obvious is that EKPPD is an entirely top-down approach measurement system. The owner of the system is the central government, thus the central government formulated the key performance indicators (KPIs). In contrast, although LAKIP was a requirement set down by a

² In English, LAKIP means 'Performance and Accountability Report of Governmental Institutions'.

³ LAKIP was introduced in 1999, through Presidential Instruction No.7/1999.

national government regulation, the performance indicators were developed by local government itself by referring to the local mid-term and annual plans. More detailed features of the EKPPD however require further investigation.

Mimba et al. (2007) has indicated a connection between the increasing demand for performance information in developing economies and pressure from international donor agencies such as the World Bank. Other authors also have mentioned the role of international donor agencies (particularly the World Bank) in relation to performance measurement in developing economies (see Halachmi, 2005a, p. 503; 2005b, p. 256 and Hatry, 2006, p. xiv). Investigating the role of international donor agencies in the establishment of the new performance measurement initiative in Indonesia was the second motivation of this study. Understanding this role may help to explain the underlying interest of international donor agencies in the initiative.

Furthermore, literature on performance measurement in developed economies has widely recognised the difficulties of measuring performance in the public sector. These difficulties relate to the distinct nature of the public sector compared to its private counterpart, from where the performance measurement idea was transplanted (see for example Jones, 1994; Jones and Pendlebury, 2010, chapter 2; Propper and Wilson, 2003). The public sector in developing economies also differs to that in developed ones as Mimba et al. (2007) have identified. With these different characteristics, performance measurement in developing economies is likely to face different (or even higher) challenges than in developed economies. This became the third motivation for conducting this study. The new measurement system being trialled in Indonesia provides a good opportunity to understand the challenges faced by performance measurement in developing economies.

This study has also been driven by the motivation to investigate use(s) of information produced from the EKPPD as the new measurement system being applied in Indonesia. Authors such as Newcomer (1997), Bouckaert and Halligan (2008) and Jackson (2011) consider that the importance of making sure of ‘use’ is because performance measurement incurs substantive costs. Pollit (2000) states that as the actual impact of reforms is very difficult to determine, performance information use offers a more traceable measure of success. Thus, research on use is important. In addition, Moynihan and Pandey (2010, p. 850) state that the question “why do managers use performance information?” is perhaps the largest question that needs to be addressed by scholars working in the field of public sector performance management and measurement.

Finally, performance measurement practices may be found in any type of public sector organisation. My particular interest in local government performance measurement was also connected to my previous career background as a civil servant in an Indonesian municipality. Seven years’ work experience provided me with an understanding of the context (the local government setting) and practices applied in this context. Developing expertise in terms of theoretical perspectives will help me to see matters related to the local government context in a different way. This was also my motivation to choose the topic of performance measurement in a local government setting.

1.3 Objectives

This study aims to improve our understanding of performance measurement systems applied in the context of developing economies; more specifically our understanding in terms of driving forces for performance measurement system development in this context, the effectiveness of performance measurement systems (assessed at their different stages), the factors influencing

the effectiveness of different stages and how the influences of different factors interact with each other. Specific to the Indonesian context, this study aims to understand the new performance measurement system applied in Indonesia (i.e. the EKPPD), its different elements and how these elements fit together.

To achieve these objectives, I will first 1) define the division of the main phases of performance measurement systems and identify what is to be included in each phase, 2) define a classification of contingency factors that influence performance measurement systems and determine what factors are included in each category, 3) identify which factors influence specific phases of performance measurement systems, 4) develop a conceptual framework based on different phases of performance measurement systems which can be used to analyse the data at the later stage of the study, 5) adjust the conceptual framework with regard to contextual factors of the public sector in developing economies,⁴ and 6) formulate specific research questions:⁵

- 1) Why was this new performance measurement system established in Indonesia and how?
- 2) What system design does the new performance measurement system in Indonesia follow? Why was it designed in the way it is and how effectively has the system been designed?
- 3) How effectively has the new performance measurement system been implemented?

⁴ Step '5' means the elaboration of the conceptual framework that will be developed in Chapter 2, which will be based on the literature on the developed economies with specific characteristics of the public sector in the developing economies that have been identified in Mimba et al. (2007), such as high levels of corruption, informal practices and local democratic systems, which relate to the direct election system as one of the common reforms undertaken in most developing economies. This elaboration will be discussed in Chapter 3. In terms of contingency factors that have been examined in the studies focusing on the context of developed economies, common factors include technical and organisational factors (Cavaluzzo and Ittner, 2004). Identification of various contingencies examined by the existing literature on the developed economies will be discussed in Chapter 2.

⁵ The discussion about the underpinning theories or rationale for each research question can be found in Section 4.2.4, p. 96

- 4) Is there any evidence(s) of use(s) of the information produced from this new performance measurement system? If there is any evidence, how the information has been used? If there is no evidence, why the information is not used?
- 5) Which factors influence design, implementation and use of the new performance measurement system in Indonesia? And how the complex interactions between technical, organisational and institutional factors work to influence design, implementation and use?

Derived from rational or functional approaches to researching public sector performance measurement systems, this study also brings insights from institutional theories, more specifically New Institutional Sociology (NIS) to illuminate the findings of this study. The theory of institutional isomorphism (DiMaggio and Powel, 1983) is particularly relevant for this study. I also borrow insights from literature in other fields to address some issues that are not discussed in the performance measurement literature: development, political economy and local government literature. By so doing, this study, is expected to contribute to the body of knowledge on performance measurement in developing economies on the theoretical, empirical and methodological levels.

1.4 Structure of the Thesis

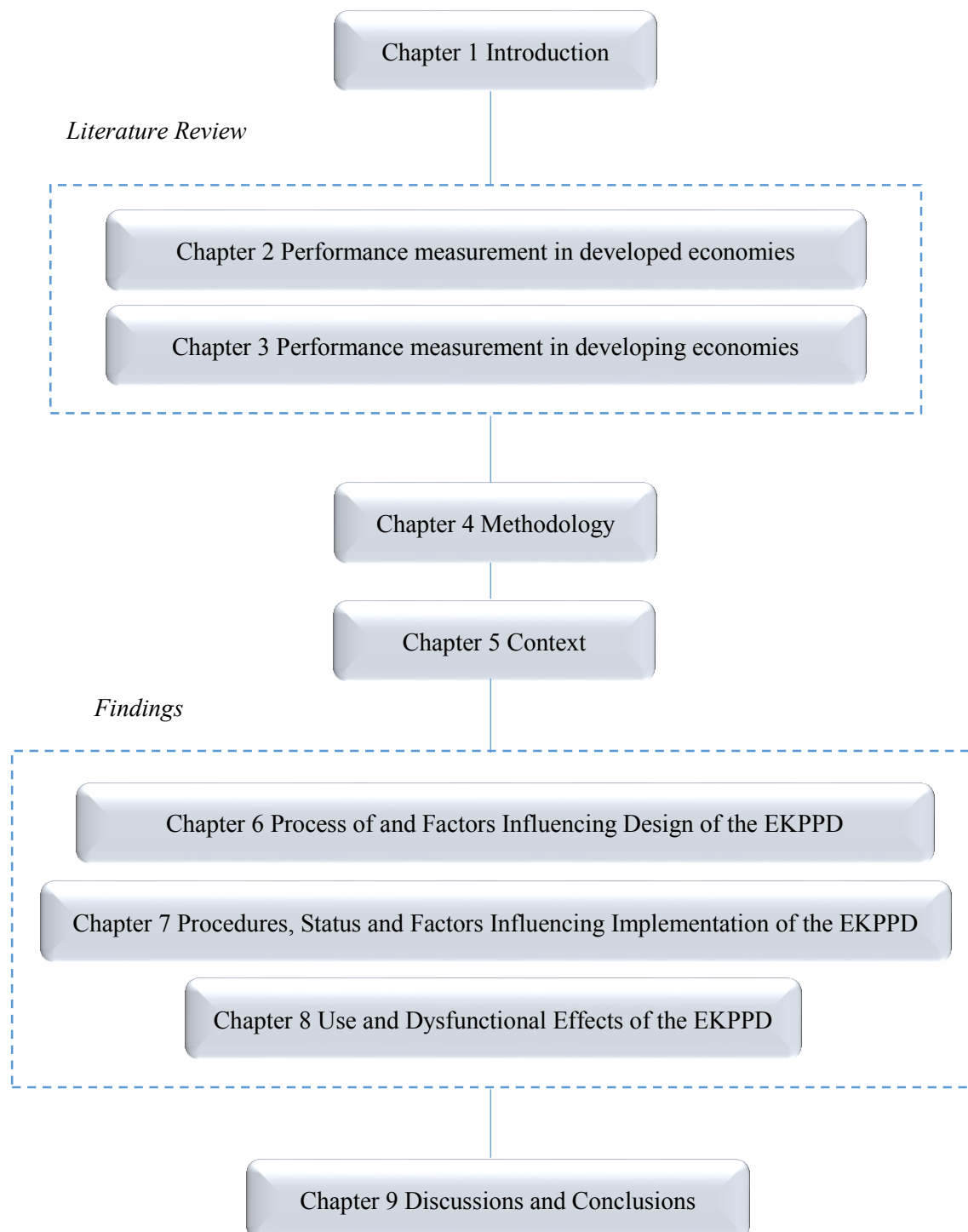


Figure 1.1 Structure of the Thesis

Source: Developed by author

As shown in Figure 1.1 above, this thesis consists of nine chapters, detailed as follows:

- Chapter 1 : Provides background, motivations, objectives and contributions, and structure of the study.
- Chapter 2 : Introduces important definitions and concepts in performance measurement. The core of the chapter relates to the identification of factors that influence performance measurement systems at different stages (the development of the conceptual framework for the study). Discussion in this chapter is based on experiences of developed economies in adopting with performance measurement.
- Chapter 3 : Discusses the contextual factors of the public sector in developing economies and elaborates them with the conceptual framework developed in Chapter 2 (further development of the conceptual framework), including tracing the origin of performance measurement in the context of developing economies.
- Chapter 4 : Introduces methodology adopted in this study. The chapter provides the rationale for using the case study method and explains how the case study was conducted. The chapter ends with the criteria for research evaluation.
- Chapter 5 : Provides background to the case under investigation. The discussion focuses on the implementation of radical decentralisation in 2001, its negative implications and the redefinition of Indonesia decentralisation in 2004.
- Chapter 6 : Presents findings of the study related to the design of the new measurement system applied in Indonesia. These include the drivers, the roles and interests

of international donor agencies, the characteristics of the new measurement system and the factors which influenced the design process.

Chapter 7 : Outlines findings of the study related to the implementation of the new measurement system. More specifically, the chapter presents problems encountered at different steps of implementation and by different stakeholders.

Chapter 8 : Provides findings related to the use of the new measurement system. The chapter explains the reasons for there being no evidence of use of the information produced from the new measurement system; it also presents some dysfunctional effects.

Chapter 9 : Offers discussions and conclusions.

CHAPTER 2

PERFORMANCE MEASUREMENT IN DEVELOPED ECONOMIES

2.1 Introduction

As mentioned in Chapter 1, performance measurement is currently practised in many countries around the globe. Its history can be traced back to the early nineteenth century (Williams, 2004). The New York Bureau of Municipal Research (NYBMR) activities, especially after 1906, represented the first application of prototypical performance measurement practice (Gianakis, 2002; Williams, 2003; 2004). The establishment of the United States Bureau of Efficiency (BoE) in 1916 was also part of the efforts to transplant efficiency techniques applied in the private sector to a governmental setting (Lee, 2006). Williams (2004) also notes that by 1930, performance measurement had become a distinct activity, in the sense that its focus and purpose had shifted. The focus had moved from government to government services, and the main purpose had changed from political accountability to management effectiveness.⁶ In the 1960s and 1970s, various initiatives such as programme budgeting (for example, Program Planning and Budgeting Systems, or PPBS) reflected performance measurement attempts introduced by the United States government (Gianakis, 2002; Perrin, 1998). Finally, the extensive efforts to develop performance measurement in the 1990s are described by Radin (2006) as the performance ‘movement’.

⁶ Williams (2004, p.155) describes that prior to the 1930s, “municipal research included the measurement of governance, or the study of how well the government complies with the norm of democratic government.” For example, measurement focused on whether “the city has home rule, the characteristics of the city charter, the number of elective offices, the size of council, and the terms of office.” After the 1930s, however, the principal focus of performance measurement switched to government service; measures of governance were no longer included.

This chapter presents a review of literature on public sector performance measurement undertaken in the context of developed economies. The review focuses on identifying which factors influence the design, implementation and use of performance measurement systems. Drawing from contingency-based studies as the predominant type of research undertaken in public sector performance measurement and drawing insights from an institutional perspective, this study classifies and examines three broad categories of factors, namely technical, organisational and institutional factors. Bringing insights from institutional perspectives to the contingency framework is likely to provide a more comprehensive understanding of the design, implementation and use of performance measurement systems in the public sector.

This chapter begins with definitions and concepts. This section introduces some important definitions and concepts for the study, such as the definition of ‘performance’ in the public sector and concepts of inputs, outputs and outcomes used as measures of performance in the public sector. The next section divides performance measurement systems into three main phases: design, implementation and use, and examines what is included in each phase. The following section is the core of this chapter, which is essentially the development of the conceptual framework for the study. The section is divided into five sub-sections. First of all, I present an overview of some studies investigating factors influencing different phases of performance measurement systems. Then, the next sub-section discusses differences between contingency-based approaches and institutional approaches in studying the design, implementation and use of performance measurement systems. In the following sub-section, I provide detailed discussions of the factors which influence their design, implementation and use. Subsequently, I discuss evidence of the use or non-use of performance information, dysfunctional effects of performance measurement systems, and finally my conclusions.

2.2 Concepts and Definitions

The concept of ‘performance’ in the public sector is complex and multidimensional due to the distinctive nature of the public sector compared to the private counterpart from which the performance measurement techniques were transplanted.⁷ Depending on the disciplines⁸ underpinning the study of performance measurement, the complexity and multidimensional concept of performance in the public sector can be understood through different ways: for example, by looking at the definition of public sector organisations from an accounting perspective. Jones (2001) defines public sector organisations as those that “provide services free at the point of delivery, financed by taxation” (p. 5454). From this definition, we can infer that a universal measure of performance is not available in the public sector. As Jones explains, in the context of liberal democracies, resources consumed by the government can be measured in monetary terms, because governments have to buy in the same markets in which business buy, but the recipients of governmental services do not express their satisfaction in monetary terms. This is what explains the absence of a universal measure of performance in the public sector.⁹

The relentless demand for performance measurement however, is addressed by using non-financial measures (Jones and Pendlebury, 2010, see p. 18). Two sets of important concepts related to non-financial measures are summarised in Figure 2.1 below. The first concept is ‘inputs’, which represent ‘resources consumed’ by governments, measured primarily using

⁷ A detailed discussion about the evolution of performance measurement in the public sector can be found in Williams (2004). Lee (2006) also provides interesting information about the history of the establishment of the Bureau of Efficiency in the United States in 1916 that was also part of the effort to transplant efficiency techniques applied in the private sector into a governmental setting.

⁸ Performance measurement is a multidisciplinary subject, with economics, public administration, accounting and sociology being among the disciplines which have contributed to the performance measurement literature (Van Helden et al., 2008). Bouckaert and Halligan (2008) add psychology and social sciences or managerial sciences as fields also concerned with performance measurement.

⁹ The case is different in private sector organisations, where the value of services provided by a firm is given by “the money it collects, from the sales it makes.” As the cost of a service provided is also measured in monetary terms, money provides a universal measure of performance in this sector (Jones, 2001, p. 5454).

costs but also non-financial measures (e.g. the number of employees). The second concept is ‘outputs’, which represent services provided by governments; they are mainly measured using non-financial measures. Finally, ‘outcomes’ also means services provided by governments, but they are measured primarily using qualitative judgements (Jones and Pendlebury, 2010, p. 21).¹⁰

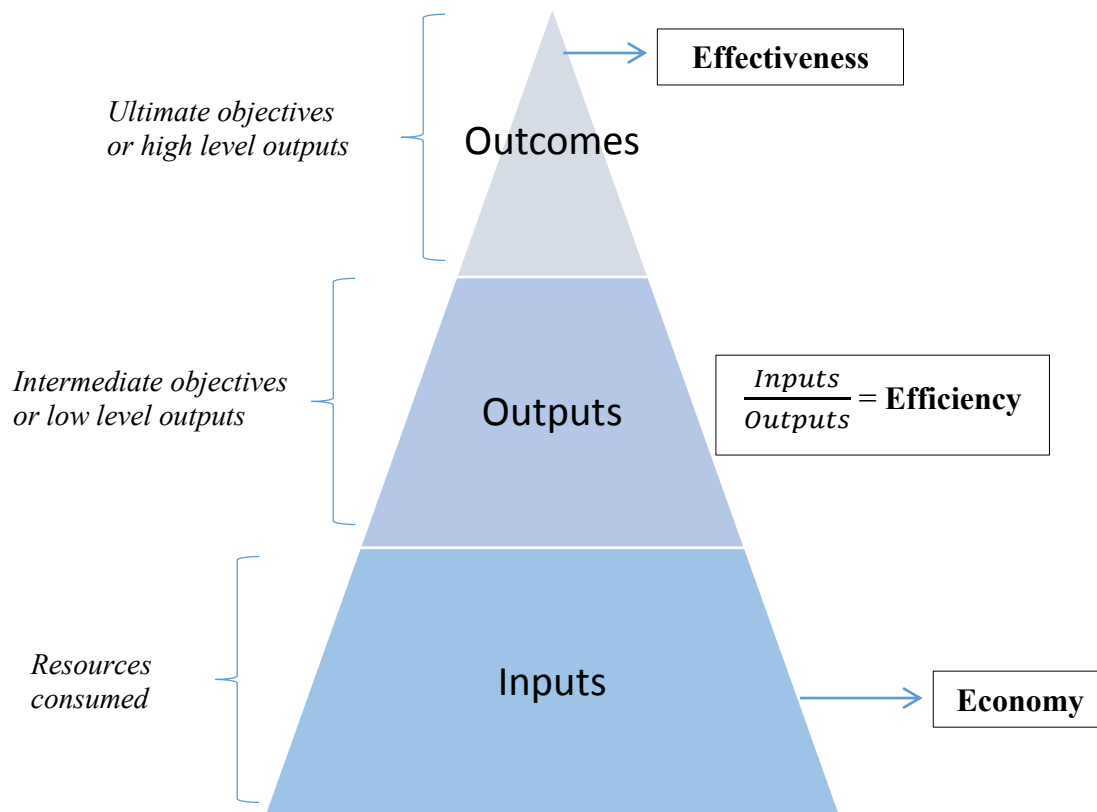


Figure 2.1 Conceptualisation and Measurement of Performance in the Public Sector

Source: Developed by author, informed by Jones and Pendlebury (2010; 2000)

A much earlier study (see HM Treasury, 1988) also provides a useful explanation about the difference between outputs and outcomes. According to this work, outputs reflect the achievement of intermediate objectives – objectives which, if accomplished, are assumed to

¹⁰ In the earlier editions, Jones and Pendlebury distinguish between ‘low level outputs’ and ‘high level outputs’ to refer to outputs and outcomes respectively (see, for example, Jones and Pendlebury, 2000, ch.1).

contribute to the ultimate objectives, whereas ‘outcomes’ manifest the achievement of the ultimate objectives (what the organisation is actually trying to achieve).

As can be seen from Figure 2.1, measures of performance, inputs, outputs and outcomes are not at the same levels. They are “best thought of as being hierarchical” (Jones and Pendlebury, 2010, p. 21). The hierarchical nature of inputs, outputs and outcomes is recognised in the other literature as the ‘span’ of performance (see Bouckaert and Halligan, 2008, pp. 15-18). At the low levels of the hierarchy, measures of input can be easily counted. Moving to a higher level, measures of output still can be easily counted. At the highest level, however, there are unmeasurable outcomes. While measures at the lowest level of the hierarchy can be reliably measured, they are furthest away from what the government services are ultimately trying to achieve. On the other hand, at the highest level, they are what the services are ultimately trying to achieve, but cannot be measured. The hierarchical nature of inputs, outputs and outcomes is fundamental to the measuring of public sector performance (Jones and Pendlebury, 2000; 2010; Schick, 2001).

The concept of ‘economy’ deals with, among other matters, inputs (see Figure 2.1). The term represents the level of spending on a service, but a more accurate definition is the cost to provide specific service inputs of a given quality (Jackson, 1988). The questions here will be “does a particular output cost more than it needs to?” and “does it cost more than a comparable one?” (Jones and Pendlebury, 2000, p. 11). This emphasis on economy forces the use of inputs to remain at a minimum level, and the possible sacrifice of the quality of outputs. The concept of ‘effectiveness’, on the other hand, is concerned only with outputs (final outputs or outcomes) and ignores inputs.¹¹ As most objectives are achievable with unlimited resources, focusing solely on effectiveness leads to achieving objectives at any cost, which aside from being

¹¹ For example: “do pupils pass exams?” or “are jobs created as a result of local economic policies?” (Boyne, 2002, p.18).

unrealistic, is undesirable when dealing with public money. Therefore, Jones and Pendlebury (2000, p. 11) argue that “the praiseworthy achievement is to satisfy the objectives at the minimum cost.” In this sense, the concept of ‘efficiency’ plays an important role.

Defined as the ratio of outputs to inputs, efficiency captures both economy and effectiveness at the same time. As a result, efficiency can stand on its own and has thus been used as a basis for performance evaluation in the private sector. In the public sector, however, reliance on efficiency is problematic for four reasons. These four reasons are discussed further below and refer mainly to Jones and Pendlebury (2000, ch. 1). Firstly, efficiency is defined as a ratio, and a ratio is not an absolute. Rather, a ratio only becomes meaningful when the efficiency ratios of, say, two organisations are compared, or are from the same organisation but from different years. Its meaning is thus relative. Secondly, a ratio can be improved in several ways: (i) maintaining the same level of inputs but increasing the outputs, (ii) increasing both outputs and inputs but increasing outputs in a greater proportion, (iii) maintaining the level of outputs but reducing inputs, and (iv) decreasing both inputs and outputs but decreasing inputs in a greater proportion than outputs. These provide the opportunity to present a better ratio without performance actually improving.

The next two reasons are significant and fundamental. If outputs are measured in monetary terms, the ability of output measures to capture consumer preferences will determine the quality of the ratio. However, the public sector faces a common problem of market failure, with nationalised industries occupying the right to monopoly as the classic example. Suppliers operating under monopoly rights can improve the efficiency ratio by increasing charges; the implication of this strategy, however, is that any operating inefficiency is passed on to the consumers, who have no other option except to pay the increased price. In cases where outputs cannot be measured in monetary terms, efficiency ratios have to use outputs measured in

physical units. The effect of this is that “ratio can no longer be a universal standard because the physical output measure is only a surrogate for the ultimate output” (Jones and Pendlebury, 2000, p.12).

Ideally, a calculation of the efficiency ratio should use high level outputs (outcomes), but as this is impractical,¹² low level outputs are often used instead. Two disadvantages of using low level outputs in an efficiency ratio are (i) the ratio tells us that the activity is efficient but it only achieves very limited objectives cheaply, and (ii) the ratio “can only be used comparatively, and even then they can only be used when comparing like goods and services” (Jones and Pendlebury, 2000, p. 12). Given the limitations of each concept, economy, efficiency and effectiveness should be judged together; focusing on one is insufficient to gauge public sector performance. This explains the necessity from an accounting perspective of a multidimensional concept of performance in the public sector.

The public sector also has multiple stakeholders with different objectives and interests.¹³ These multiple objectives tend to be ambiguous and complex, and sometimes even conflict with one another (Jackson, 2011; Propper and Wilson, 2003). For example, financial performance is usually the treasury’s interest, effectiveness of policy tends to be parliament’s interest, and quality of public services, consumers’ interest. Given the different interests, there is unlikely to be a uniform definition of public sector performance for these different stakeholders. For this reason, Carter (1991) considers the concept of performance in the public sector to be “vague”; Bovaird (1996) and Smith (1995) share a similar view. One conclusion to be drawn

¹² High level outputs (outcomes) are unmeasurable (see previous explanation, p.16).

¹³ The existence of multiple stakeholders also causes complex accountability relationships which eventually impact upon performance measurement. A detailed discussion of these complex accountability relationships is provided in Smith (1990) and Steward (1984).

from this is that what constitutes performance is determined by the stakeholders' objectives and interests.

Thus, the complex and multidimensional concept of performance is derived from the characteristics of the public sector, which is different from the private one. Performance in the public sector can be conceptualised into three elements: inputs, outputs and outcomes, which can also be expressed as economy, efficiency, and effectiveness. The concepts should, however, be judged as a whole. Some authors suggest the inclusion of other performance dimensions; van Helden and Reichard (2013), for instance, add 'equity' and Boyne (2002) argues that a democratic dimension (e.g. participation) should be included.

Two more points need to be noted here before proceeding to the next section. First, Jones and Pendlebury (2010, ch. 2) argue that performance is a part of a process and a learning experience gained by the organisation. The actual performance thus cannot be measured, and "measures are often referred to as indicators of performance, rather than the performance itself" (p. 26). Second, the history of performance measurement implies that the term does not refer to a particular empirical technique but instead to the application of "relevant techniques"¹⁴ in observing government at work (cf. Williams, 2004). This argument supports the point made by Jones (2011) and quoted in the introductory chapter of this thesis regarding the very diverse nature of performance measurement practice.

¹⁴ Relevant techniques include (i) "budget and cost accounting", (ii) "collection of data on output of government activities and the social conditions that could reasonably be thought to depend to some degree on successful government service", (iii) "the modern survey", and (iv) "the social survey of 1900". The last two are relevant to the degree to which the techniques allow "the objective observation of the method, efficiency, product or outcome of government service" (Williams, 2004, p. 157).

2.3 Performance Measurement Systems

The definition of ‘performance’ in the public sector has been discussed, but not yet the term ‘measurement’. The earlier accounting literature defines measurement as “assignment of numbers to objects” (Ijiri, 1967, p. 22). Meanwhile, the term ‘measuring performance’ is defined by Bouckaert and Halligan (2008, p. 26) as “systematically collecting data by observing and registering performance related issues for some performance related purposes”. The content of ‘a system of measurement’ includes practices, procedures, criteria, and standards that govern the collection of data, the analysis of the data, and the compilation of the results into quantitative or qualitative forms, according to Halachmi and Bouckaert, 1996, see p. 2), and the real process of measuring performance is complex (Van Dooren, 2005). Table 2.1 shows ways of dividing performance measurement systems into different phases suggested by a number of prominent authors. It also indicates that different terminologies have been employed to describe similar phases.

Authors	Phase I		Phase II			Phase III
Cavaluzzo and Ittner (2004)	Implementation					Use
De Lancer Julnes and Hozler (2001)	Adoption					Implementation
Van Dooren (2005)	Adoption					Implementation
Van Dooren et al. (2010)	Targeting	Indicator selection	Data collection	Analysis	Reporting	
Bourne et al. (2000)	Design		Implementation			Use

Table 2.1 Division of Performance Measurement Systems into Phases

Source: Developed by author, informed by different sources

Cavaluzzo and Ittner (2004) differentiate performance measurement according to two phases: implementation and use. Implementation refers to the formulation of, among others, outputs, outcomes and efficiency measures. The use of measures informs decision-making processes at

managerial level (e.g. setting programmes priorities and allocating resources) and higher levels (e.g. developing agencies' budgets and making funding decisions). De Lancer Julnes and Hozler (2001) also identify two stages of a performance measurement system but use the terms adoption and implementation. Adoption refers to the development of outputs, outcomes and efficiency measures, while implementation means their actual use (e.g. strategic planning, resource allocation, internal control and external accountability purposes). Van Doreen (2005) uses similar concepts and Van Dooren et al. (2010) propose five phases of ideal performance measurement. The first phase is targeting, or deciding what to measure. The second is selection of the appropriate performance indicators to be employed. The third phase is collection of performance data. The fourth is analysis, which transforms data into information. The final phase is reporting performance information in the right formats for different stakeholders and users. The first two phases refer to implementation in Cavalluzzo and Ittner (2004) or adoption in De Lancer Julnes and Hozler (2001). The next three phases (which describe the processes undertaken between the phases of formulating and using measures) are, however, not identified by either of the earlier authors.

Bourne et al. (2000) present a study on performance measurement in private companies; their phase division of performance measurement systems is however helpful here. Bourne et al. (2000) identify three phases of a performance measurement system: design, implementation and use. Design addresses questions of what to measure and how to measure. Implementation refers to the phase in which “systems and procedures are put in place to collect and process the data that enable the measurements to be made regularly” (p. 758) (this conceptualisation encompasses the last three phases proposed by Van Dooren et al. (2010) discussed above). Use refers to the use of performance measures as intended.

This study differentiates a performance measurement system into three phases: design, implementation and use (see Figure 2.2).

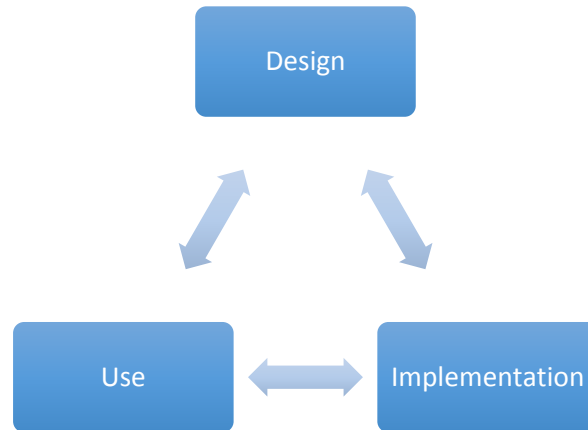


Figure 2.2 Phases of a Performance Measurement Systems
Source: Developed by author, informed by different sources

In terms of division, the phases are similar to those proposed by Bourne et al. (2000); the difference lies in their nature. For Bourne et al. (2000), the three phases are sequential, implying that any revision of the system will take place after the system completes its full cycle. Our thesis however agrees with Van Helden et al. (2012), that assessment of performance measurement systems can take place during any phase; thus necessary corrections can be done immediately. The processes involved in each phase are discussed further below.

2.3.1 Design

As mentioned above, Bourne et al. (2000) define design as having two stages: identifying what to measure and designing measures. Bouckaert and Halligan (2008) identify ‘depth’ of performance in terms of three layers: the micro, meso and macro levels. Micro level performance is that of an individual public sector organisation and its interface with citizens or other organisations. Meso level performance occurs at the level of specific policy fields such as education, health, or environment. Finally, macro level performance relates to government-wide or even country-wide performance. Thus, the first step is to answer the question: are we

measuring performance at the micro, meso or macro level? Addressing this as the first step of designing a performance measurement system is also recommended by Van Dooren et al. (2010).

Next, Smith et al. (2008) argue that a specific and strong conceptual framework is needed as a foundation for the measures to be developed. For example, in 1992, Kaplan and Norton introduced a widely adopted performance measurement system in the private sector known as the balanced scorecard (BSC), which was developed based on a conceptual framework consisting of four elements: the financial perspective, business perspective, learning perspective and customer perspective. BSC's conceptual framework stems from the assumption that high business performance can be achieved when the four elements are taken into account. Performance measures in BSC are then built around these four elements (Kaplan and Norton, 1992).

The third step of design is to formulate measurement techniques, which contains a broader meaning than 'developing measures' used in Bourne et al. (2000), Cavaluzzo and Ittner (2004) and De Lancer Julnes (2001). Developing measures is limited to the development of output and outcome measures. However, a recent trend in performance measurement is to use a composite performance system (Hood, 2007; Smith et al., 2008). A composite measure is one obtained through combining separate performance indicators into a single index; its use aims to provide a bigger picture and to offer a more rounded view of performance.¹⁵ Developing a composite measure is therefore more complex than merely developing output and outcome measures. For instance, formulating a weighting system (the weight to be attached to different aspects of

¹⁵ Examples of PMSs adopting composite measures are Comprehensive Performance Assessment (CPA) in England (introduced in 2002 and aimed at assessing English local government) and the competitiveness index and the World Bank's governance ratings at the international level (Hood, 2007).

performance that form a composite measure) is important; a scoring system also needs to be defined.

It is important to note that public sector organisations are not usually able to choose the environment in which they operate. Some are favourable, others unfavourable, and thus the same outcomes may not be secured from one to another (Smith , 2006). As Smith states, questions therefore arise in terms of: (i) “how much local variation in performance is legitimately explained by uncontrollable circumstances?” (ii) “can the performance measures be satisfactorily adjusted to account for different environment circumstances so that they do offer valid comparison of local institutions?” (p. 76). Andrews et al. (2005) test the influence of external constraints on the CPA and find that its score is significantly influenced by certain local government characteristics, such as social diversity and economic prosperity. The study concludes that ‘poor’ performance is partly attributable to difficult circumstances rather than bad choices. Thus, the CPA regime punishes local governments working under difficult conditions and rewards local governments operating under favourable circumstances.

Local governments also cannot control, for example, the ethnic mix, age profile, morbidity or mortality of their local population, at least in the short term (McLean et al., 2007). McLean et al. (2007) argue that these factors come under ‘indices of deprivation’ (p. 116), showing that deprivation in the domain of education (for example) significantly affects the overall CPA score. In other words, the higher the deprivation, the lower the CPA score achieved. As the degree of deprivation is not the same across local authorities, its effects can differ according to the type of local authority and the CPA domain. Empirical findings from Andrews et al. (2005) and McLean et al. (2007) support Smith’s (2006) argument that, “It is for most public services manifestly unreasonable and misleading to compare solely on the basis of unadjusted performance indicators” (Smith, 2006, p.76).

Therefore, Barnow and Heinrich (2010) recognise the importance of developing techniques to account for uncontrollable factors or procedures to adjust performance standards, although designers rarely go this far. In other words, the ‘design’ phase, should not stop at developing measures but should continue the developing procedures to account for uncontrollable factors. The objective is to create a fair performance measurement system. Relevant techniques have been developed in the education sector (such as the use of *value added*) but remain under-developed for other sectors (Propper and Wilson, 2003). The technique isolates the impact that the school environment has on student progress between two points in time. The mechanism incorporates prior attainment, helping to account for factors beyond the school’s control, such as family background and other personal characteristics. The development of net outcome measures is much less advanced in other sectors. Barnow and Heinrich (2010) also show that there are still few cases where “adjustments to performance standards have been considered, and even fewer in which they have actually been applied” (p. 68).

2.3.2 Implementation

As defined earlier, implementation covers all the steps needing to be undertaken from the time the system is ready to be put in place until performance information has been produced and is ready to be used by stakeholders. The main steps include data collection, data analysis and reporting the performance information in whatever forms are specified in the system design of the performance measurement systems. Bourne et al.’s (2000) conceptualisation of ‘implementation’ agrees with Poister’s (2003) definition:

Implementation of a performance measurement system means collecting and processing all the required data within deadlines, ‘running the data’ and disseminating performance reports to the designated users on a timely basis, and reviewing the data to track performance and use this information as an additional input into decision making. It also includes initiating quality assurance procedures and instituting checks in data

collection procedures where practical to identify “stray values” and otherwise erroneous data. (Poister, 2003, p. 30)

The phase of implementation may also include pilot testing for a new performance measurement system and user training (Jääskeläinen and Sillanpää, 2013; Van Helden et al., 2012). In the case of the Governmental Performance Results Act (GPRA) 1993 in the US, for example, the first four years were used as a pilot test.¹⁶ Epstein (1996) notes that many critical issues and obstacles were discovered during the pilot test which implies that the problems took years to overcome before the real implementation of the GPRA could be done. Epstein (1996) is supported by Berman and Wang (2000), who suggest: “initial small-scale efforts help identify and address capacity shortfalls” (p. 417). A new system of measurement for research performance in the UK called the Research Excellence Framework (REF) also went through a pilot test in 2010 before the first real research performance assessment took place in 2014.

2.3.3 Use

The increased interest in performance measurement has been driven by the fundamental premise that it is critical to ensuring improvement to the efficiency and effectiveness of public service delivery. This is especially pertinent given the limited amount of public resources available (Jones, 2001):

This increase in measurement has a fundamental premise: that – given scarce resources – explicit measurement of the quantity, if not quality, of services provided, linked to measurement of resources consumed, produces better services. (Jones, 2001, p.5461)

The key words in the quote above are ‘resources consumed’, ‘quantity’ of services and ‘quality’ of services. As defined earlier, resources consumed to provide public services means inputs.

¹⁶ The legislation on the GPRA was signed by the President Clinton on 3 August, 1993 but the first year of its requirement only came into effect at the beginning of October 1997 (Radin 2000; 1998).

The link between inputs and quantity of services is efficiency; the link between inputs and quality of services is effectiveness (see discussion in Section 2.2).

Other literature suggests that the value of performance measurement relates to improved accountability as well as improved performance (Ammons and Rivenbark, 2008; Barnow and Heinrich, 2010; Halachmi, 2002; 2005b; Perrin, 1998; Wholey and Hatry, 1992). Accountability needs to be improved because “taxpayers want to know what they are getting for their tax dollars...” (Greiner, 1996, p. 36). The usefulness of performance measurement in terms of accountability derives from two assumptions: namely, that performance measurement helps an organisation to achieve its objectives and to provide stakeholders with relevant information (Lee, 2008). Recent literature also indicates the possibility for performance measurement to expand still further to address the fiscal problems faced by many developed economies following the 2007-09 global financial and economic crises (Talbot, 2010; Van Dooren et al., 2010) and the scarcity of resources that such problems imply.

The fundamental premise of performance measurement implies that the primary use of performance information is to improve the performance of public sector organisations in terms of efficiency and effectiveness. Measuring performance is also intended to serve various other purposes. Some authors provide lists of potential uses of performance information, and Van Dooren et al. (2010) offer perhaps the longest list of those potential uses, containing 44 items. Other authors propose the classification of uses into different categories. Speklé and Verbeeten (2014), for example, distinguish between: operational use (operational planning and process monitoring), incentive-orientated use (target setting, incentives and rewards), and exploratory use (priority setting, double loop learning and policy development).

To sum up, performance measurement systems consist of design, implementation and use phases and each phase contains various elements, as summarised in Table 2.2 below.

Phase	Activity
Design	<ol style="list-style-type: none"> 1. Identifying target of measurement (what to measure) 2. Developing measurement framework 3. Formulating measurement techniques (how to measure) 4. Developing techniques to account for uncontrollable factors
Implementation	<ol style="list-style-type: none"> 1. Piloting a new measurement system 2. Training the users 3. Collecting performance data 4. Analysing performance data 5. Reporting performance data
Use	<p>Using performance measures as intended¹⁷</p> <ol style="list-style-type: none"> 1. Improving performance 2. Serving accountability purpose 3. Evaluating performance 4. Comparing performers 5. Setting performance targets 6. Planning and control 7. Learning process 8. Other uses

Table 2.2 Measurement Systems Phases and Elements

Source: Developed by author

2.4 Factors Influencing Design, Implementation and Use

2.4.1 Overview

The previous section discusses the distinction between the design, implementation and use of performance measurement systems. Some factors may play roles in determining the effectiveness of each phase which eventually influence the effectiveness of performance measurement systems. Table 2.3 provides an overview of studies that have examined the influences of various factors in the design and use of performance measurement systems.

¹⁷ Different from the items for design and implementation, the items in use do not have an implied order.

Author(s)	Topic	Empirical focus	Research method	Factors examined in the study	Key findings	Stream of literature
Cavaluzzo and Ittner (2004)	Factors influencing design and use of performance measurement	US Federal Government	Survey	Technical Factors: <ul style="list-style-type: none"> - Limitations of information systems/data problems - Metric difficulties Organisational Factors: <ul style="list-style-type: none"> - Top management commitment - Decision-making authority - Training - Legislative mandate 	Design and use are influenced by technical and organisational factors. Some of the technical and organisational factors interact to influence the measurement system, often in a complex manner.	Accounting
De Lancer Julnes and Hozler (2001)	Factors influencing design and use of performance measurement	US State and Local governments	Survey	Rational/Technocratic Factors: <ul style="list-style-type: none"> - Resources - Information - Goal orientation (i.e. a consensus on programme goals) - External requirement Political/Cultural Factors: <ul style="list-style-type: none"> - Internal requirement - Internal interest groups (managers and line staff) - External interest groups (elected officials and citizens) - Risk taking - Attitudes 	Design is influenced more by rational factors, whereas use is influenced by political and cultural factors.	Public administration
Van Dooren (2005)	Factors influencing design and use of performance measurement	Ministry of the Flemish Community in Belgium	Survey	Measurability Political Interests (i.e. support from elected officials) Size Discretion Means Goal orientation (i.e. the linkage between goals and performance measurement)	Organisations with more observable outputs measure more than the ones with more intangibles outputs. Then, bigger organisation also measure more than smaller one.	Public management
Berman and Wang (2005)	Factors influencing design and implementation of performance measurement	US counties with populations over 50,000	Survey	Technical/Infrastructure Capacity: <ul style="list-style-type: none"> - Ability to relate outputs to operations - Ability to collect data in a timely manner - Presence of staff capable of analysing performance data - Presence of adequate information technology Political/Stakeholder Capacity: <ul style="list-style-type: none"> - Support from department heads - Support from elected officials 	The success of performance measurement is greatly affected by counties' underlying organisational capacity (i.e. adequate stakeholder support and technical abilities)	Public administration
Yang and Hsieh (2007)	Factors influencing design and managerial	All government	Survey	Political environment (i.e. political support)	The implementation of performance measurement is inseparable from the	-

	effectiveness of performance management	units and 12 district governments in Taiwan		External stakeholder participation (i.e. involvement of elected officials and citizens) Organisational support (i.e. support from both top management and the subsystems of the organisation) Training	evolution of politics and democratic governance, which suggests that the integration of political science constructs such as political support and organisational theory constructs such as organisational support provide a better explanation for the public management phenomenon.	
Abernethy and Lillis (2001)	Interdependencies between service innovation, structural autonomy, and PMS design	149 teaching hospitals in Australia	Survey	Strategic choices Organisational structure Performance measurement system	A fit among strategy, structure and the performance measurement system is likely to bring better organisational performance in in terms of efficiency and effectiveness.	Accounting
Verbateen (2008)	Performance management practices in public sector organisations impact on performance	Public sector organizations in the Netherlands	Survey	Clear and measurable goals Incentives	The definition of clear and measurable goals is positively associated with quantity and quality of performance. The use of incentives is positively associated with quantity of performance but not quality.	Accounting
Speklé and Verbeeten (2014)	Use of PMSs in the public sector	Organisational units within the Dutch public sector	Survey	Contractibility , which encompasses: <ul style="list-style-type: none"> - Clarity of goals - Ability to select undistorted performance metrics - Degree to which managers know and control the transformation process 	The effectiveness of the introduction of performance measurement systems in public sector organisations depends on contractibility and how the system is being used by managers.	Accounting
Moynihan and Pandey (2010)	Factors influencing use of performance information	The US local governments with populations over 50,000	Survey	Individual beliefs: <ul style="list-style-type: none"> - Public service motivation Job attributes: <ul style="list-style-type: none"> - Reward expectation - Generalist leader - Task-specific experience Organisational Factors: <ul style="list-style-type: none"> - Information availability - Development culture - Flexibility - Budgeted staff takes adversarial role External Factors: <ul style="list-style-type: none"> - Citizen participation - Professional Influence 	Public service motivation, leadership role, information availability, organizational culture, and administrative flexibility all affect performance information use.	Public administration

Table 2.3 Overview of Studies Examining Factors Influencing Design and Use

Source: Developed by author

From Table 2.3, I can make some observations. First, the existing studies have covered various factors that influence design and use but not yet implementation, or at least, factors influencing implementation phase have not been made explicit. Berman and Wang (2000) find that having staff capable of analysing performance data distinguishes between high and low use of performance measurement in the US counties. This finding implies that the capacity of human resources influences implementation.¹⁸ The focus on design and use phases is understandable due to the unclear definition and lack of agreement among authors in terms of what is to be included as the implementation phase discussed earlier. Therefore, making it clear what specific factors influence implementation will fill in the gap in the literature and respond to the call of Van Helden et al. (2012) who have also pointed out this problem.

Second, different studies have examined different sets of factors, with limited consistency in the way in which they conceptualise and classify those factors. For example, Cavaluzzo and Ittner (2004) made a distinction between ‘technical’ and ‘organisational’ factors, while De Lancer Julnes and Hozler (2001) differentiate between ‘rational/technocratic’ and ‘political/cultural’ factors. The construct ‘metric difficulties’ in Cavaluzzo and Ittner (2004) associates with ‘measurability’ in Van Dooren (2005) and corresponds to ‘contractibility’ in Speklé and Verbeeten (2014). Essentially, the three studies talk about the ability to define measures. Cavaluzzo and Ittner (2004) for example, refer metric difficulties to:

- 1) difficulties in determining meaningful measures
- 2) results occur too far into the future to be measured
- 3) difficulties in distinguishing between results produced by the programme and results caused by other factors

¹⁸ The implementation phase includes data analysis (see Section 2.3.2)

- 4) difficulties in determining how to use performance information to improve the programme or to set new or revise existing performance goals

Cavaluzzo and Ittner relate the difficulties mentioned above to some features common to many Federal programmes, including:

- a. Complex interaction of activities and objectives from different tiers of government (i.e. Federal, state and local government)
- b. Outcomes of complex systems which are largely beyond government control (e.g. programmes related to ecosystems)
- c. Attribution of performance to a particular function
- d. Difficulties in measuring many government goals (e.g. social welfare)

Van Dooren (2005) relates measurability to “the characteristics of outputs and outcomes of the organisation” (p. 372). As he state, by their nature, some outputs and effects are easier to measure. For example, more tangible outputs can be measured in a more precise way than non-tangibles. Van Dooren (2005) bases his measurability hypothesis on the work of authors such as Hackman and Oldman (1980) who define different types of task,¹⁹ and Wilson (1989) who defines a typology of organisations based on observability of their outputs.²⁰ The argument is that performance measurement will be easier for organisations with more observable outputs (e.g. those dealing with housing) than the opposite (e.g. embassies and cultural institutions).

Furthermore, the construct ‘contractibility’ in Speklé and Verbeeten (2014, p 134) refers to the degree to which an accumulation of three conditions can be met simultaneously:

- 1) “Organisational goals can be specified unambiguously in advance”

¹⁹ Tasks with high routine and low ambiguity, tasks with average routine and ambiguity, and tasks with high routine and low ambiguity.

²⁰ Production, procedural, craft, and copying organisations.

- 2) “The organisation is able to select undistorted performance measures (i.e. metrics that provide incentives that are adequately aligned with the organisations’ ultimate objective”
- 3) “Organisational actors know and control the production function that transforms efforts into results, and are able to predict the likely outcomes of alternative courses of action”

Garbage collection is as an example of a high contractibility activity, while activities such as child protection services, foreign affairs and community development are examples of low contractibility. Contractibility is low when “actors are unable fully to specify the attributes of satisfactory performance, or when manager’s systemic influence on the ultimate outcome is restricted or unknown”.

Third, the use of similar terms may refer to different conceptions or vice versa. For example, ‘organisational factors’ in Cavaluzzo and Ittner (2004) consists of very different elements to the ‘organisational factors’ of Moynihan and Pandey (2010). ‘Information availability’ is categorised as an organisational factor by Moynihan and Pandey, whereas Cavaluzzo and Ittner classify it as a technical factor. Berman and Wang’s (2000) construct ‘technical/infrastructure capacity’ encompasses elements of both technical and organisational factors in Cavaluzzo and Ittner (2004).²¹ In another example, ‘goal orientation’ in De Lancer Julnes and Hozler (2001) means a consensus on programme goals, while Van Dooren (2005) defines it as the linkage between goals and performance measurement.

Furthermore, De Lancer Julnes and Hozler (2001) term support from internal organisation (i.e. managers and line staff) ‘internal interest groups’, while Yang and Hsieh (2007) call this

²¹ Berman and Wang (2000) operationalise technical capacity as: 1) being able to collect data in a timely way, 2) having adequate information technology, 3) having staff capable of analysing performance data, and 4) being able to relate outputs to programmes operations. Points 1, 2 and 4 are categorised as technical factors in Cavaluzzo and Ittner (2004) while point 3 can be associated with ‘training’ (organisational factor) in Cavaluzzo and Ittner (2004).

‘organisational support.’ Support from elected officials is termed ‘political interests’ by Van Dooren (2005), ‘external interest groups’ by De Lancer Julnes and Hozler (2001) and ‘stakeholder/political capacity’ by Berman and Wang (2000),²² This limited consistency implies a lack of communication among different streams of literature on public sector performance measurement research, an issue which has also been highlighted by Van Helden et al. (2012). For example, Cavaluzzo and Ittner (2004), who represent accounting literature, do not cite De Lancer Julnes and Hozler (2001), who represent public administration literature. Moreover, Van Dooren (2005), who represents public management literature also does not cite Cavaluzzo and Ittner (2004). Given the multidisciplinary nature of public sector performance measurement research, establishing communication among different streams of literature will benefit performance measurement research and help to reduce the confusion for those who are interested in researching this field.

2.4.2 Approaches to Studying Design, Implementation and Use

Contingency-based Approaches

The studies presented in Table 2.3 can be categorised as contingency-based studies, which represent the predominant type of research on public sector performance management and measurement (Van Helden and Reichard, 2013). The contingency-based approach in public sector performance measurement systems research means that research seeks for a fit between performance measurement systems and contexts. This type of research is drawn from contingency theory, which was developed within organisational theory in the 1960s (Chenhall, 2003; Otley, 1980).

²² The ‘external interest groups’ of De Lancer Julnes and Hozler (2001) also cover support from citizens. Meanwhile, Berman and Wang’s (2000) ‘stakeholder/political capacity’ also includes citizen participation and top management commitment (i.e. support from department heads).

The contingency-based approach is also applied in accounting research, particularly in the field of management accounting. According to Otley (1980, p. 416), the popularity of contingency approaches to the design of accounting information systems in the 1970s was contributed to by both “empirically necessity and the availability of a ready-made theory [contingency formulations within organisational theory]”. These can be explained as follows. First, a universal framework could not satisfactorily resolve conflicting results of management accounting research and therefore a contingency theory of management accounting emerged as “a necessary means of interpreting the results of empirical research... to explain apparently contradictory findings” (p. 414).

Three general contingent variables (technology, organisational structure and environment) have been prominent in the theoretical development of contingency theories of management accounting. These factors seem to explain the different accounting systems found from one situation to another. Thus, in the 1970s, management accounting research was characterised by the move from a universalistic approach to a contingent approach. Second, the popularity of the contingency approach in management accounting research relates to the prior development of the contingency theory of organisations (the major reason). As Otley describes, “During the 1960’s organisation theory underwent a major upheaval which led to the construction of a through-ongoing contingency theory”. By the early 1970s, contingency theory had been strongly established as the dominant approach in organisation theory (cf. Otley, 1980, p.416).

A more recent review of the application of contingency frameworks in management accounting research (see Chenhall, 2003) indicates that research has tended to focus on contemporary aspects of the environment, technologies and structural arrangements. The studies draw on the original organisational theory to develop arguments that help explain how contemporary settings influence the effectiveness of management control systems. The relevance of

additional contextual variables to the design of management control system (i.e. the role of strategy) has also been considered.

Overall, Chenhall's review indicates that the existing literature (i.e. contingency-based studies) have examined six common contextual variables: 1) external environment, 2) technology (traditional and contemporary), 3) organisational structure, 4) size, 5) strategy, and 6) national culture. As at the foundation of contingency-based research, the external environment is a powerful contextual variable and will continue to be a central element of context in contingency-based research. One important development in research in this field relates to incorporating the national culture factor, which represents "an extension of contingency-based research from its organisational foundations into more sociological concerns"²³ (Chenhall, 2003, p. 154).

The main argument of contingency-based studies is that there is no one universal design for a management accounting system; instead it is contingent or depends on the contextual factors in which organisations operate (Chenhall, 2003; Otley, 1980). A good fit will bring enhanced performance, whereas a poor fit will cause diminished performance (Otley, 1980; Chenhall, 2003). Thus, in the context of public sector performance measurement systems research, a good fit between the design of performance measurements systems and their context is expected to improve organisational performance or vice versa (Van Helden and Reirhard, 2013). Abernethy and Lilis (2001), for example, show how the fit between strategic choices, organisational structures and performance measurement systems helped to improve performance in Australian teaching hospitals.

²³ The inclusion of national culture influence is based on the proposition that different countries possess particular cultural characteristics. Development of companies' multinational operations was a reason for the culture element to become important in the design of management control systems (Chenhall, 2003).

As the term contingency means that something is true only under specific conditions, actually there is no such thing as a 'contingency theory.' Instead, a variety of theories may be used to explain and predict the conditions under which particular accounting tools (e.g. performance measurement systems) will be found or will be associated with improved performance. As mentioned earlier, contingency-based research has its foundations in organisational theory, which considers contextual variables only at the organisational level. A criticism of contingency-based research relates to its reliance on traditional, functionalist theories; it has not applied more interpretive and critical views (cf. Chenhall, 2003, pp. 157-159).

Chenhall (2003) recognises that some researchers have provided an interpretive and critical focus in management accounting research through using alternative approaches derived from sociology. Alternative approaches imply a rejection of the assumptions upon which functionalist contingency research is based. An advantage of the alternatives approaches is that research can show the potential conflict between individuals and groups and how accounting tools may be implicated in these struggles. From these perspectives, accounting tools do not necessarily lead to enhanced effectiveness; groups within the organisation or within society at large may use accounting tools for political and power purposes and are not associated with the welfare of the organisation.

An important issue regarding the appropriateness of combining 'alternative' theories of management control systems with traditional, functionalist models is highlighted in Chenhall's review. Although alternative approaches have different theoretical and philosophical bases, he recognises that contingency-based ideas have been used to develop convergence between these approaches by some researchers. Scott (1987) argues that many of the insights concerning the role of institutions within society on the adoption of management control systems can be combined readily into contingency frameworks. Chenhall (2003) argues that contingency-

based approaches can be used to examine how power is implicated in the adoption and use of management control systems to effect resource distribution or induce change: “A contingency-based approach attempts to map variables and demonstrate potential relationships between these variables, which may include power and politics, and indicate potential links with outcomes” (p. 160).

Chenhall’s review offers some important conclusions. First, the study of management control systems using contingency-based approaches departs from the assumption that managers act with an intent to “adapt their organisations to changes in contingencies in order to attain fit and enhanced performance”. Second, using original organisational theorists to study issues of contemporary relevance still offers many opportunities, but other approaches based in economics and psychology can readily be included within contingency-based frameworks. Third, the traditional contingency-based model can be elaborated by incorporating non-functionalist approaches and insights drawn from ‘alternative’ theories to studying management control systems. Finally, contingency-based research can provide “an ordered way to integrate thinking about the sociological processes affecting management control systems in action, perhaps combining these insights with conventional elements of contingency-based models” (cf. Chenhall, 2003, p. 161).

Using a similar argument to Chenhall’s (2003), Van Helden and Reichard (2013) state that the academic rigour of contingency-based research in public sector performance management and measurement systems depends on the theory used to interpret the findings. They discuss three main theories relevant to studying public sector performance management and measurement: 1) variants of economic theories (e.g. agency theory or transaction cost theory); 2) variants of organisation theories; and 3) variants of institutional theories. These theories will be discussed further below (the discussion will be based on Van Helden and Reichard, 2013, pp. 16-17).

When research focuses on explaining the selection of particular performance indicators, economic theory will be useful. The use of this kind of theory is usually prescriptive (e.g. assessing the contribution of performance indicators to improving decision-making and control, comparing such improvement with the costs of developing, measuring and reporting these indicators). When research is concerned with the effectiveness of incentives for managers, such as bonus systems, the use of agency theory will be appropriate. A relevant issue to explore, for example, relates to the influence of a pay-for-performance system which is based on performance indicators of organisational performance (i.e. the extent to which a pay-for-performance system contributes to an enhanced organisational performance).

A broad range of different approaches and explanations can be offered by organisational theory. Research can be focused, for instance, on understanding and interpreting the reactions of organisational units or actors to the implementation of a public sector performance measurement system or explaining impact of performance information on organisational performance. Then, closely related to organisational theories, the concept of neo-institutionalism or institutional sociology can explain, for example, the reason why bureaucrats choose a ‘fashionable’ performance measurement system design (isomorphism) or the reason why politicians do not use performance information. In general, institutional theories are helpful to explain the design and use of performance information through understanding institutional forces, including politicians’ and managers’ ways of thinking.

Van Helden and Reichard (2013) also mention the importance of behavioural theories to explain how certain attitudes and perceptions of decision-makers, such as politicians and managers, contribute to particular types of performance measurement use. From Table 2.3, Speklé and Verbeeten (2014) and Verbeteen (2008) are examples of contingency-based studies applying behavioural and economic theories. Another important point to be noted is that Van

Helden and Reichard's (2013) review suggests the increasing trend for studies undertaking institutional perspectives in public sector performance management and measurement research.

Institutional Approaches

Modell (2009) provides an excellent review of the evolution of institutional research on public sector performance management and measurement. The review shows the different focus of research using institutional approaches compared to those applying contingency-based approaches. Institutional-based research focuses on adaptation processes in public sector performance management and measurement systems, whereas contingency-based studies assume stability in the fit between context and performance management and measurement systems.

The institutional perspective therefore helps to broaden the view of performance management and measurement as merely "a technical or instrumental issue of devising systems for measuring and influencing achievement of organisational objectives to emphasize the social and political aspects associated with such practices". The importance of institutional aspects of performance management and measurement is often connected to the multiple stakeholders of the public sector and the need to provide information for these different stakeholders (sometimes with conflicting interests as discussed earlier in Section 2.2). While it is necessary to maintain legitimacy, public sector organisations are also subject to regulatory and institutional pressures to adopt various performance management and measurement practices. The increasing attention on institutional aspects of performance management and measurement began in the mid-1990s (cf. Modell, 2009, pp. 277-278).

The progress in institutional research on public sector performance measurement observed by Modell (2009) relates to the extensions of Neo-Institutional Sociology (NIS) with various supporting theories. The most popular research strategy to achieve this extension is through

juxtaposing institutional theories with predictions derived from the functionalist-centred assumptions of rational choice, such as economic theories and contingency theory. Cavaluzzo and Ittner (2004) and Van Helden and Tillema (2005) are two examples of this kind of study. Modell (2009) argues that the strengths of studies adopting this strategy relate to the explicit assessment of the validity of the rival or complementary explanations (of the adoption and/or use of performance management and measurement), instead of simply assuming this is invariably dominated by legitimacy-seeking behaviour.

As there are many branches of institutional theory, Scott (1987) reminds us that researchers need to specify which kind of institutional theory they are using when adopting institutional theories. Authors such as Bouckaert and Halligan (2008, pp. 61-62) and Pollit (2001) suggest that the thesis of institutional isomorphism formulated by DiMaggio and Powel (1983) can be a useful theory to explain different driving forces for the development of performance measurement systems. DiMaggio and Powel (1983) differentiate institutional isomorphism into three strands: coercive isomorphism, mimetic processes and normative isomorphism.

Coercive isomorphism presents itself when organisations receive formal and informal pressures from other organisations in which “they are dependent and by cultural expectations in the society within which organisations function” (p. 150). State and professional bodies are two sources of coercive influence in the current environment, and a common example of coercive isomorphism is when organisational change takes place as a direct response to a government mandate. Mimetic processes take place when organisations copy the practices of other organisations as a standard response to uncertainty; for example, a) organisational technologies are poorly understood, b) goals are ambiguous and c) the environment creates symbolic uncertainty (cf. DiMaggio and Powel, 1983).

Finally, normative pressures are associated with professionalisation. Two important sources of isomorphism are: a) education and legitimation in a cognitive base produced by university specialists; b) the growth and elaboration of professional networks that span organisations and across which new models diffuse rapidly. Universities and professional training institutions are important centres for the development of organisational norms among professional managers and their staff. The three types of institutional isomorphism are analytical, which means that their influences on a certain phenomenon under observation can work together at the same time (cf. DiMaggio and Powel, 1983).

Saliterer and Korac (2013) argue that performance measurement is a complex phenomenon which is difficult to explain and understand using a single theory. The use of multiple theories will provide a more comprehensive explanation of this complex phenomenon. They use a contingency framework to study performance information use by politicians and managers in small and medium sized local governments in Austria. Their argument is consistent with Chenhall's (2003) conclusion to bring insights from sociology theories and also Modell's (2009) conclusion on the necessity to bridge institutional and rational choice explanations mentioned earlier. Bringing insights from both the institutional and rational approaches is also supported by Scott (1987, p. 509), who states, "Institutional arguments need not be formulated in opposition to rational or efficiency arguments but are better seen as complementing and contextualising them".

2.4.3 Factors Influencing Design, Implementation and Use: Further Discussions

Applying a contingency-based approach and also taking insights from institutional theory (i.e. DiMaggio and Powel, 1983), this study classifies factors that might influence the design, implementation and use of performance measurement into three broad categories: technical, organisational and institutional factors. Technical factors are factors that relate to metrics and

data (Berman and Wang, 2000; Cavaluzzo and Ittner 2004; Speklé and Verbeeten, 2014; Van Dooren, 2005). Organisational factors refer to the core organisational elements such as resources needed to support performance measurement initiatives, organisational support, and decision-making authority (Cavaluzzo and Ittner 2004; De Lancer Julnes and Hozler, 2001; Van Dooren, 2005; Yang and Hsieh, 2007). Institutional factors comprise cultural and political elements of the context where the performance measurement system is being applied (Scott, 1987; Modell, 2009).

Design Factors

Technical Factors

The existing literature suggest that the ability to define measures influences measure development (Cavaluzzo and Ittner, 2004; Van Dooren, 2005). The findings of Cavaluzzo and Ittner (2004) show that measure development is negatively associated with metric difficulties. More clearly, difficulty in selecting and defining meaningful measures significantly hampers measure development. Van Dooren (2005) finds that measure development is higher in organisations with more routine-based services than the opposite. Jones and Pendlebury (2010, see ch.2, pp. 27-29) note six measurement challenges when measurement systems rely on non-financial measures: 1) measurement of costs, 2) reliability of output measures, 3) causal relationships between inputs and outputs, 4) narrowness of output measures, 5) comprehensiveness versus concision, and 6) controllability of performance. It is plausible to elaborate these challenges to the metric difficulties of Cavaluzzo and Ittner (2004) and other related studies.

First, performance measurement requires the measurement of costs of providing services on a full accrual basis. The challenge is how to distinguish “the cases where full costs are required... and those where full costs are not relevant” (Jones and Pendlebury, 2010, p.27). As they say,

in this sense, the public sector shares the same challenge as the private sector. The typical challenge for government is the large proportion of costs which cannot naturally be traced to outputs and outcomes. As a result, significant amounts of arbitrary allocated costs are unavoidable, which means that the accuracy of data reported is questionable.

Measures that capture costs of services provided (e.g. efficiency measures) are important measures for organisations (see the discussion about the importance of efficiency measures in Section 2.2). Jones and Pendlebury (2010, ch. 2) argue that from an accounting perspective, performance measurement is meaningless when it does not take into account the costs of services provided. The difficulties of developing efficiency measures are connected to the capacity of an organisation's costs accounting system (Montesinos and Brusca, 2011; Ammons and Rivenbark, 2008). This point will be explored further later in the discussion about ICT capacity/data availability in this sub-section. As the difficulties in developing efficiency measures connect to the capacity of cost accounting systems, which is part of an organisation's ICT system, the challenge of measuring cost can be associated with the limitations of information systems/data problems discussed in Cavaluzzo and Ittner (2004).²⁴

Second, "reliability of output measures" refers to the fact that non-financial databases are not auditable in the same way as financial databases. With financial databases, bank statements provide a control mechanism for money coming in and out of the system and allow an independent check of financial records during the audit process. However, no comparable control mechanism is used for non-financial databases (cf. Jones and Pendlebury, 2010, p. 27). The same argument has been put forward in earlier studies (see Pendlebury et al., 1994). With

²⁴ Limitation of information system/data problems in Cavaluzzo and Ittner (2004) is defined as problems providing necessary, relevant, reliable and valid performance data in a timely and cost-effective manner.

no control mechanism available, outputs measures can be easily distorted (Schick, 2001), which means that their reliability is questionable.

Commenting on the spread use of composite measures, Hood (2007, p. 100) says that relatively little is still known about the validity and reliability of complex composite performance measurement systems. Quantification is prone to errors. Talbot (2010, pp. 40-41) provides a similar argument: four types of error are presented in Table 2.4 below.

Type of error	Description
Simple mistakes	Clerical errors, such as inadvertent double-counting or omissions at the source of data collection.
Sampling error	The indicator, time-period or sub-unit taken is not representative of the overall population.
Categorisation errors	Perplexity about how to fit cases into categories may result in faulty assignment of those cases.
Gaming or cheating	Deliberate massaging or outright fabrication of numbers collected with the intention of improving the position of an individual or organisation.

Table 2.4 Classification of Measurement Errors
Source: Hood (2007, p.100)

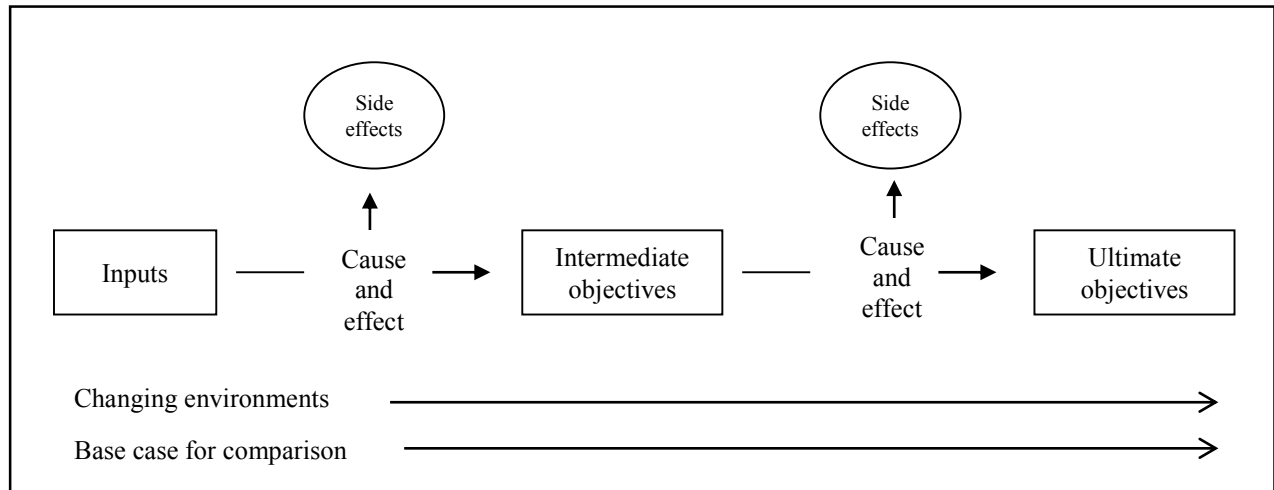
The reliability of output measures may not have an effect on design, but it will affect the use phase of performance measurement systems; unreliable measures may discourage policy-makers from using measures to inform decision-making (this will be discussed further in Section 2.4.3). The reliability of output measures also corresponds to the limitation of information system/data problems of Cavaluzzo and Ittner (2004).

Third, “causal relationships between inputs and outputs” means establishing causal relationships between inputs, outputs, and outcomes reliably (Jones and Pendlebury, 2010, p. 27) and manifests the ‘essential’ problem of measuring performance in the public sector (Jones and Pendlebury, 2000, p. 226). Causality issues or attribution problems are discussed in Berman and Wang (2000), Cavaluzzo and Ittner (2004) and recent literature (see Speklé and Verbeeten, 2014). The first point of technical capacity conceptualisation in Berman and Wang (2000) is the ability to relate outputs to operations (see Table 2.4). Point (3) of Cavaluzzo and

Ittner's (2004) definition of metric difficulties is on difficulties in distinguishing between results produced by programmes and results caused by other factors (see p. 20). Finally, point (3) of Speklé and Verbeeten (2014) states: "organisational actors know and control the production function that transforms efforts into results, and are able to predict the likely outcomes of alternative outcomes" (see p. 22). All of these definitions refer to causality.

It is not easy to make a direct connection between outputs and operations, as the nature of outputs and outcomes in the public sector means that they are very often a joint production of different units/organisations (Greiner, 1996; Jackson, 2011; Smith, 1995b); producing the desired output may even extend to involving private sector organisations. When an output falls into the category of cross-cutting departments, the attribution of performance is difficult. Authors such as Keenan (2000), Schick (1973), and Jones and Pendlebury (2000, ch. 4) note the cross-cutting departmental problem as one of reasons for the failure of the earlier performance measurement initiative, PPBS in the US in the 1970s.

The causality problem has also been widely recognised in other studies (see Bouckaert and Halligan, 2008, p.15; Greiner, 1996, p. 25; HM Treasury, 1988, p. 20; Jones, 1994, pp. 46-48; Jones and Pendlebury, 2000, p. 226; Wholey and Hatry, 1992, p. 608). As demonstrated in Figure 2.3, performance measurement needs to recognise changing environments and look for a base case as comparison, as certain factors influence the process of converting inputs into outputs and outcomes.



Establishing causal relationships thus addresses the question, “Would this all have happened anyway?” (Jones, 1994, p. 47). Greiner (1996) and Bouckaert and Halligan (2008) analogise the process of converting inputs into outputs and outcomes in the public sector as a black box, meaning that we lack understanding of the process which converts inputs into outcomes. The process in the public sector is different from the manufacturing production process, where we can easily establish the link from X units of inputs into Y unit of outputs. This lack of a theory to explain the relationship between inputs, outputs and outcomes in public sector organisations usually causes the outputs and outcomes to be determined by service professionals and politicians. This, in turn, fundamentally affects inputs (the primary concern of accounting) (Jones and Pendlebury, 2010, ch. 2).

Cavaluzzo and Ittner (2004) find that public managers in the US experience difficulties in associating their activities with future results and distinguishing between results produced by the programme and results produced from other factors. A study in Australia suggests a similar finding. Here, public managers consider outcomes measures to be important information. Nevertheless, they seem reluctant to develop them, because the outcome could be influenced

by other factors outside their control (Lee, 2008). Thus these findings provide empirical evidence of how causality issues affect design.

Fourth, “narrowness of output measures” is the term used by Jones and Pendlebury (2010, p. 28) to express the difficulty in comparing measures across different services, even within a single service.²⁵ The key point is that different services that governments might provide are not comparable with each other. Even within a single service, comparison is difficult to make. Take education services as an example: comparisons cannot be made between numbers of students at secondary schools and primary schools. Although at the same school, the experiences of teachers and students in one year will be not the same as those in the previous year. Thus, when measuring performance includes all kind of services that governments might provide, “performance measurement primarily using non-financial output measures is necessarily diffuse”(p.28). Measurement will be easier when the focus of measurement is made more specific. However, when measures focus on “complex, multiservice governments or on complex single service within a government, measures will have to be very many. These will not be comparable and will not be capable of being understood in the context of a complex service or government as a whole” (Jones and Pendlebury, 2010, p. 28).

An empirical example of problems with measure comparability is given in Ammons and Rivenbark (2008), who study a performance measurement project involving 15 cities in North Carolina, USA. As they describe, in responding to the complexities of measuring efficiency, many local authorities choose to use full-time equivalent (FTE) per thousand population (cost per capita) for both overall services provided by local authorities and services provided by a specific department. Using FTEs, local authorities contracting out one or more main functions,

²⁵ This challenge relate to the discussion about disadvantages of efficiency measures discussed in Section 2.2

however, show better performance than local authorities which choose to run the functions themselves.

Costs per capita of services provided by local authorities are obtained from total local budget divided by number of population. These costs are then compared between different jurisdictions. However, this kind of comparison ignores the differences in terms of the quality and ranges of services provided by different jurisdictions. Parks and fire services for instance, are costly functions, and in some cases (as noted by Ammons and Rivenbark, 2008), local governments are not responsible for these, as they are handled instead by the county government. In terms of total costs per capita, therefore, this type of local government will appear more efficient than other local governments which are responsible for both functions.

This problem can be addressed through “per capita cost comparisons on a function-by-function basis” (Ammons and Rivenbark, 2008, p. 310). However, cost accounting systems differ between cities, causing low comparability of the costs reported. Ammons and Rivenbark’s (2008) finding confirms Jones and Pendlebury’s (2000) argument that efficiency measures can only be used to compare like goods and services (see Section 2.2). Efficiency measures in the form of unit costs merely “raise the red flag”. Further investigation is needed to find out why there are two results when comparing the performance of two jurisdictions (Jones and Pendlebury, 2000, pp. 219-220). For this reason, Ammons and Rivenbark (2008) say that FTEs are seen as an “extremely crude measure” of efficiency (p. 310).

The broader the context of where performance measurement systems will be applied, the more problematic will be the comparability of measures. Similarly, the more diverse the context of where performance measurement systems will be applied, the more difficult it will be to design comparable measures. Therefore, the larger the scope of measurement, the less comparable the measures will be (cf. Jones and Pendlebury, 2010, p.28). This argument is supported by Radin

(2000): “reform [performance measurement] can be best handled in the context of specific programme areas” (p.134). I will use the term ‘comparability of measures’ instead of ‘narrowness of output measures’ because the meaning of the former seems to be clearer. The point about comparability of measures discussed by Jones and Pendlebury corresponds to the construct measurability of Van Dooren (2005), which implies the ability to define measures based on different characteristics of the outputs of different organisations mentioned earlier.

Fifth, “comprehensiveness versus concision in reporting measures” reflects the degree of detail (i.e. whether measures are comprehensive or concise measures) and the level of expertise needed to understand measures (i.e. whether measures can only be understood by specialists or can be understood by non-specialists). Designers need to balance the tendency to develop very many measures, in order to ensure that all performance aspects of government are sufficiently captured, and the demand for simple and easily understandable measures. Indeed, “concise, partial performance measures can produce serious misunderstanding of comprehensive performance of a government” (p.28). At the same time, service recipients, politicians and the population at large are not experts (cf. Jones and Pendlebury, 2010, p. 28). For example, a performance measure which states that the cost of providing primary education is £X per 10,000 populations can be understood only by an expert. The non-specialist will hardly understand the implications of this measure.

Finally, “controllability of performance” relates to the previous discussion about the different environments in which public sector organisations operate (see discussion in Section 2.3.1). According to Jones and Pendlebury (2010), under a rational control system, “performance measurement only relates to those matters that the government can control’ (p. 28); that is, what is included in “the planning, execution and monitoring cycle of the government” (p. 28) but not anything beyond that. More precisely, the ability of an organisation to control

performance is limited to what is contained in the annual budget and the audited financial statements, beyond which public managers should not be held accountable. An earlier study notes, “it is pointless, and indeed unjust, to hold someone accountable for something that (s)he cannot control” (Jackson, 1988, p. 12).

Point (2) of Cavaluzzo and Ittner’s (2004) definition of metric difficulties – results occur in the future to be measured – and points (a) and (b) of the federal government programme features (see discussion in point 2.4.1) imply the concern of their studies about the controllability of performance. Speklé and Verbeeten (2014) also express concern about this issue and state, “in the public sector organisations, means-end relations are often ill understood, and managers may be unable to predict the likely outcomes of alternative courses of action” (p. 6). It is also important to understand that performance is not only determined by the individual manager’s efforts and action choices. Decisions taken elsewhere in the organisation, the cooperation of external parties, and uncertain, uncontrollable events, may affect performance. In these situations, as Speklé and Verbeeten (2014) state, “performance measures become noisy and do not adequately reflect managerial achievements” (p. 6). Controllability of performance will influence design, as procedures need to be developed to account for the uncontrollable factors. The more uncontrollable factors, the more procedure adjustments need to be developed, which implies that the design phase will be more difficult. The more diverse the environment, the more difficult it is expected to be to develop procedures to adjust performance standards.

As mentioned earlier, point (4) of Cavaluzzo and Ittner’s (2004) definition of metric difficulties is about unclear prescription on how to use measures (see discussion in point 2.4.1). Their study finds that difficulty in determining how to use measures can hamper measure development. Deciding how measures should be used is not straightforward. For example, performance measurement system development may be intended for the purpose of allocating resources.

Difficulties arise related to the inability of performance measures to inform under which circumstances resources should be increased or decreased. Greiner (1996) expresses this difficulty: “If performance declines, should resources be increased to overcome the problem or decreased to put them to better use?” (p. 27).

Moynihan and Andrews (2010) point out that performance measurement just indicates that something happened, but does not tell people what decisions to make. For example, if a school in a particular area is performing poorly, should the government close it and shift the budget to a school in another area which is performing better? The answer is not straightforward; further analysis is needed to find out why that particular school is not performing well. It may need more teachers or better facilities, which implies that resources should be increased. From this perspective, if we go back to the question, why should the public sector exist? the answer is because the private sector cannot provide such resources. More clearly, “the impossibility of fully measuring the output of public services” is one basic reason for why the provision of public services cannot be left entirely to the competitive markets and why some sort of public sector regulation is required (Smith, 2006, p. 75). Furthermore, the immediate sanction as applied in the private sector – moving the investment from the less profitable company to the more profitable one – is hardly applicable in the public sector. Assuming a local government’s performance is poor, its citizens do not necessarily move to another jurisdiction with a better performance. Factors such as family, economic status, culture and religion can affect such a decision.

From the discussion above, measurement challenges in this study refer to:

- 1) Difficulties in developing measures that capture the costs of services provided
- 2) Difficulties in ensuring the reliability of measures
- 3) Difficulties in establishing causal relationships between inputs and outputs

- 4) Difficulties in ensuring comparability of measures
- 5) Difficulties in balancing comprehensiveness versus concision in reporting measures
- 6) Difficulties in addressing controllability of performance
- 7) Difficulties in determining how to use measures

In terms of ICT capacity/data availability, the findings of Cavaluzzo and Ittner (2004) show that limitations of information systems/data problems do not prevent measures from being developed, but do affect use. Other studies, however, show different results. Montesinos and Brusca (2011), for example, find that the difficulties in formulating efficiency measures in Spanish local government are due to the absence of a cost accounting system. Ammons and Rivenbark (2008) discover a similar problem and highlight that accurate measurement of outputs and inputs is needed to measure efficiency. However, in many governments, cost accounting systems tend to fail to capture total costs.²⁶ As a result, even if unit costs are calculated, actual costs are understated and therefore mask inefficiency. Berman and Wang (2000) also find that cost accounting systems have affected the capacity of counties in the United States to design performance measurement systems. As accounting systems in general or cost accounting more specifically are part of larger ICT systems owned by organisations, ICT capacity can affect design.

Based on the discussion in the previous paragraph, it implies that accrual system should have been in place when introducing performance measurement initiatives. This argument does not necessary mean that accrual accounting system is a ‘condition’ for performance measurement. The argument is just aimed to emphasise that the absence of accrual accounting could prevent development of important measures for organisations such as efficiency measures as the studies

²⁶ For example, overheads or other indirect costs may be overlooked or some costs, such as annualised capital expenses, may be ignored.

of Ammons and Rivenbark (2008) and Montesinos and Brusca (2011) discovered and discussed earlier. This argument is also supported by Van Dooren et al. (2010, see p. 84):

...good performance management needs effective performance measures. Performance measures, or indicators, have to be calculated on the basis of comprehensive and consistent financial and operational data. Accruals accounting is therefore an essential component of better performance management.

The view of Van Dooren et al. (2010) reflected from the quote above is consistent with the argument of Jones and Pendlebury, (2010) mentioned in the previous discussion regarding of the meaning of performance measurement, from accounting perspective, depends on whether the system take into account measurement of cost of services provided by the government (see discussion on p. 14).

Organisational Factors

Cavaluzzo and Ittner (2004) find that measure development is positively associated with the commitment of senior management. This finding is supported by other studies (Berman and Wang, 2000; De Lancer Julnes and Hozler, 2001; Dull, 2009; Yang and Hsieh, 2007). This is important because senior management can direct resources needed to support performance measurement initiatives. The importance of resources to support performance measurement initiatives is examined by De Lancer Julnes and Hozler (2001) and Van Dooren (2005). Van Dooren (2005) specifies that the resources needed to support performance measurement initiatives include financial resources, human resources and ICT infrastructures. Van Dooren (2005) is supported by McNab and Melese (2003), who state that introducing performance measurement systems requires a huge investment in ICT and human capital.

Human resources are needed in terms of both quantity and quality. De Lancer Julnes and Hozler (2001) find that measure development is higher when organisations have staff devoted to handling performance measurement tasks. Staff and managers dealing with performance

measurement tasks need trainings (Cavaluzzo and Ittner, 2004; De Lancer Julnes and Hozler, 2001; Yang and Hsieh, 2007). The findings of Cavaluzzo and Ittner (2004) show that the more training received by public managers; the better the measure development is. De Lancer Julnes and Hozler (2001) also find that availability of 'information' is positively correlated with design.²⁷ According to Yang and Hsieh (2007), most government executives are familiar with traditional input-based process indicators but less familiar with output and outcome measures. That is why training is important.

Support for a performance measurement system is important not only from senior management but also from middle managers and staff (De Lancer Julnes and Hozler, 2001; Poister and Streib, 1999; Yang and Hsieh, 2007). The reactions of the internal elements of organisations to change and innovation (e.g. the introduction of performance measurement systems) depends on their perceptions of how change and innovation will affect their job, status and personal ambitions (De Lancer Julnes and Hozler, 2001). Thus, performance measurement systems will be more effective when line managers and employees buy into the system and measures (Poister and Streib, 1999) and support by line managers and employees is more likely to occur when they are involved in the process of developing the measures, as Poister and Streib (1999) add. This study will use the term 'internal stakeholders support' to refer to senior management commitment and support from middle managers and staff.²⁸ In terms of decision-making authority, Cavaluzzo and Ittner (2004) find that public managers will engage in performance measurement initiatives when they have the authority to use the performance information (Cavaluzzo and Ittner, 2004).

²⁷ They define 'information' as technical knowledge about performance measurement that can be acquired through training or access information about performance measurement.

²⁸ The term covers the 'top management commitment' of Cavaluzzo and Ittner (2004) study and the 'internal interest groups' of De Lancer Julnes and Hozler (2001).

Next, the influence of size on design has been examined in studies such as Poister and Streib (1999) and Van Dooren (2005). The findings of both studies show that size correlates with design; larger organisations are more likely to develop measurement systems than small organisations²⁹. Poister and Streib (1999), for instance, find that performance measures are more prevalent in larger jurisdictions: 30% of cities with populations below 50,000 reported the development of performance measurement compared to 50% for cities with populations 100,000-249,999, and over 75% of those cities with 250,000 populations. Van Dooren (2005) also concludes that large organisations tend to measure more. Finally, Berman and Wang (2000) find evidence for the influence of where performance measurement efforts are located on their design. They argue that technical and political capacities are higher when performance measurement efforts are led by a central-budget or finance office (p. 414).

Institutional Factors

The development of performance measurement systems may be driven by motivation from internal organisations or by external pressures (Poister and Streib, 1999). The external pressures can be associated with the thesis of institutional isomorphism (DiMaggio and Powel, 1983). As discussed earlier, the forms of institutional pressures can be coercive isomorphism, mimetic processes or normative isomorphism. The findings of Cavaluzzo and Ittner (2004) suggest that, in many cases, performance measurement systems have been developed merely to meet regulatory requirements (i.e. coercive isomorphism). When the development of performance measurement systems is driven by regulatory requirements, the initiative may be taken by the legislative (parliament) or executive (government). Performance measurement systems in England have been more executive-based; legislative-based performance measurement systems are found, for instance, in Japan, France and the United States (Hood,

²⁹ The proxy used for size can be a population (e.g. Poister and Streib, 1999), or the number of Full Time Employees (FTE) (e.g. Verbeeten, 2008).

2007). Thus, regulatory requirement will be the first element of institutional factors to influence design.

Existing studies indicate the importance of support from elected officials to the development of performance measurement systems (e.g. Berman and Wang, 2000; De Lancer and Julnes and Hozler, 2001; Van Dooren, 2005; Yang and Hsieh, 2007). Support from elected officials has been expressed under different terms in the existing literature, such as ‘political interest’ (i.e. Van Dooren, 2005), ‘external interest groups’ (i.e. De Lancer Julnes and Hozler, 2001) and ‘political capacity’ (i.e. Berman and Wang, 2000). The importance of support from elected officials is often associated with the availability of resources to support the initiative (Berman and Wang, 2000; De Lancer Julnes and Hozler, 2001; Yang and Hsieh, 2007) or to legitimate the initiative and new performance expectations (Berman and Wang, 2000).

I categorise support from elected officials and citizens participation as an element of institutional factors, as their support is likely to be influenced by the political conditions of the institutional contexts in which the performance measurement system is being developed. This argument is based on Radin’s (2000) statement that the GRPA “Does not fit easily into the institutional structures, junctions, and political realities of the American system” (p. 111). Therefore, I will term support from both elected officials and citizens as ‘external stakeholders support.’³⁰

Smith et al. (2008) remind us that when composite indicators are not carefully designed, “they may be misleading and could lead to serious failings if used for policy-making or planning” (p. 8). Aiming to offer comprehensive performance assessment, composite indicators ideally include all important aspects of performance, even if they are difficult to measure. However,

³⁰ The use of the terms ‘internal stakeholders support and ‘external stakeholders support’ allow flexibility in referring which group of stakeholders that should be consider as ‘internal’ and ‘external.’ This flexibility is important for the purpose of this study which will be discussed further in the next chapter.

data is sometimes not available and sources can be questionable. Developing adequate proxy indicators therefore requires considerable ingenuity. The choice of weights, for example, is fundamental to devising composite indicators. However, different stakeholders attach different degrees of importance to different aspects of performance, as discussed in Section 2.2. As a result, “the specification of a single set of weights is fundamentally a political action” (p. 9). This can be termed the ‘political considerations’ factor.

Implementation Factors

Technical Factors

As defined earlier, the phase of ‘implementation’ deals with collecting, processing and reporting performance data (see sub-section 2.3.2). Therefore, implementation will first depend on the capacity of ICT to provide the necessary data. According to Smith (2006), higher ICT capacity will allow the faster collection, analysis and reportage of performance data, and ICT has the potential to significantly reduce the costs of collecting and processing performance data. Hood (2007, p. 100) notes that advancements in computer technology allow the use of composite measures, which implies the role of ICT in processing data and producing composite measures from many different measures. One critique noted by Berman and Wang (2000) relates to the early performance measurement initiatives such as PPBS and zero-based budgeting or ZBB in the 1960s and 1970s: they were technically over-reaching, using inadequate data collection capabilities. For example, outcome measures often require citizen and client surveys, but “many jurisdictions do not have the capacity to gather these data in scientifically valid ways: contracting for such information may be costly and untimely” (p. 410). Difficulties in processing and distributing the data in a timely manner were also found in Poister and Streib (1999).

Organisational factors

Implementation also requires the availability of resources. New ICT infrastructures may have to be installed (McNab and Melese, 2003), and staff need to be trained on how to collect and analyse data (Berman and Wang, 2000; Sanger, 2008). As mentioned earlier, Berman and Wang find that having staff capable of analysing performance data is the factor that most differentiates high capacity countries from low capacity countries. Having training implies that financial resources should be available to finance it. Newcomer (1997) reminds us that staff devoted to performance measurement initiatives need to be paid – treating the process of data collection used to enable performance measurement merely as additional and uncompensated work will not get the job done. Based on these arguments, it is clear that the availability of resources is crucial to support implementation and therefore Sanger (2008) argues that insufficient budget can impede implementation and on-going improvement.

Institutional Factors

The influence of institutional factors in the implementation phase has not really been made clear yet. Another critique on the failure of PPBS and ZBB in the 1960s and 1970s noted by Berman and Wang (2000) seems to suggest the influence of institutional factors on implementation. Berman and Wang (2000) argue that political officials view the reforms (i.e. PPBS and ZBB) as a threat to their power: another reason for the failure of PPBS and ZBB, besides the inadequate data collection capabilities mentioned earlier. This can be seen as the influence of political support for performance measurement initiatives during the implementation phase.

Use Factors

Technical Factors

Cavaluzzo and Ittner (2004) find that data problems tend to deter government officials from using the resulting system for performance evaluation. For example, performance measurement systems may be designed to serve accountability purposes (see sub-section 2.3.3). However, this objective may not be achieved because of data problems. Performance measurement systems may also be intended for budgeting purposes. According to Leithe (1997), the integration of performance information into the planning and budgeting process in the city of Sunnyvale, California was made possible because the cost of every unit of service³¹ was calculated using a full-cost accounting system. Leithe (1997) demonstrates how the capacity of ICT influences use in relation to measurement of costs.

The link between use and the ability of ICT to provide the required data is also reflected by Schick (2001):

Performance budgeting failed half a century ago for many reasons, but one of the most prominent facts was the inadequacy of government cost-accounting and allocation systems. The lack of data on particular costs of particular services made it exceedingly difficult to link resources and results. Government agencies were given bundles of money with little awareness as to how the volume or quality of services would vary if more or less funding were provided. (p. 56)

This describes the failure of performance measurement effort as being due to lack of capacity in the government's costs accounting system. That is why, from an accounting perspective, an accrual accounting system thus needs to be put in place before a performance measurement system is developed.

³¹ These include police and fire, water, sewerage, solid waste disposal, utilities, parks, libraries and public works.

In relation to metrics, Cavaluzzo and Ittner (2004) find that metrics difficulties appear to be significant impediment to the initial development of a performance measurement system, but have little influence on use once these problems are solved. Van Dooren (2005), however, finds that measurability is the key factor influencing use: organisations that have more routine-based services have higher use. Dull (2009) also finds measurement challenges to be negatively associated with use.³² More specific definition of measurement challenges used in this study allows for some predictions to be made in terms of the effects of measurement challenges on use:

- Incomparable measures are likely to discourage public managers from using them for benchmarking.
- When designers fail to include procedures to account for uncontrollable factors, measures may be not used (i.e. controllability of performance)
- Too few or too many indicators may be not used (comprehensiveness verse. concision in reporting measures). Too few indicators could also possibly mean a lack of priorities. Thus the indicators may reflect the external circumstances of an organisation instead of the talents or efforts of its managers. More clearly, too few indicators can be interpreted as the measured performance being not truly attributable to the organisation (Boyne, 2010). On the other hand, too detailed measures may cause managers to be overloaded with information.

Organisational Factors

The level of training received by public managers is positively associated with use (Cavaluzzo and Ittner, 2004). Their findings imply that availability of resources influence use. This

³² Measurement challenges in this study refer to technical obstacles to developing and using performance measures in terms of their validity, reliability, timely and usefulness (Dull, 2009, see p. 263).

argument is supported by Sanger (2008), who states that investment is needed to train staff on how to use performance information. In terms of the influence of senior management commitment, decision-making authority, and training, Cavaluzzo and Ittner (2004) find positive correlations with higher level uses of performance information, but not lower level uses. Cavaluzzo and Ittner (2004, p. 263) point out the complex and non-linear interactive effects of decision-making authority, measurement system development and management commitment on the use of performance information for higher level decision-making. Finally, where performance measurement initiatives are located also seems to influence use. Melkers and Willoughby (2005) recognise that use is likely to be higher when the location is in the budget office, because the budget office understands the use of performance measurement in spending decisions and is in a strong position to decide when and where to use such information.

Institutional Factors

Traditional cultural norms operating in public sector organisations can form a fundamental and challenging obstacle. For example, public managers are not accustomed to managing their operations based on performance measurement (using quantitative information) (Greiner, 1996; Sanger, 2008). This can explain why measures are not used to manage or to budget. Therefore, an effective introduction of performance measurement requires a cultural change (De Lancer Julnes and Hozler, 2001; Sanger, 2008). Studying performance measurement applied in four countries (Great Britain, France, Sweden and Germany), Kuhlmann (2010) concludes that when countries have a strong culture of transparency and the approach to performance measurement is voluntary, they show an optimum use of local performance measurement. In contrast, in countries where performance measurement systems are compulsory and highly standardised, the procedures are costly and do not have the anticipated learning outcome.

Moynihan and Andrews (2010) state that the US Congress rejected revisions on programmes and funding allocations made based on PART,³³ which implies the influence of political considerations on use. Moynihan and Andrews (2010) support De Lancer Julners and Hozler (2001) who suggest that the use of performance measures is influenced more by political and cultural considerations than by rational/technocratic factors. Berman and Wang (2000) also find that elected officials' support differentiates between high and low use of performance measurement system.

The factors influencing design, implementation and use discussed above can be summarised in Table 2.5 below

Factors	Phases influenced		
	Design	Implementation	Use
Technical Factors			
ICT capacity/data availability	x	x	x
Measurement challenges			
• Measurement of cost			x
• Reliability of measures			x
• Causal relationships between inputs and outputs	x		x
• Comparability of measures			x
• Comprehensiveness versus concision in reporting	x		x
• Controllability of performance	x		x
• Unclear prescription on how to use measures	x		x
Organisational Factors			
Internal stakeholders support	x	x	
Resources	x	x	x
Decision-making authority	x		
Size	x		
Where performance measurement initiatives are located	x	x	x
Institutional Factors			
Regulatory requirements	x		
External stakeholders support	x		
Cultures			x

Table 2.5 Factors Influencing Design, Implementation and Use (Expected)

Source: Developed by author

³³ Program Assessment Rating Tool (the US performance measurement initiative introduced in 2002).

2.4.4 Evidence of Use/Non-use

As indicated in the introduction chapter, designing and implementing a performance measurement system involves huge costs and therefore the research on use or non-use of information produced from performance measurement systems become very important. Bouckaert and Halligan (2008, p. 27) describe the costs of performance measurement systems as “unconditional, tangible and immediate” and their benefits as “conditional, intangible and scheduled for the future”. The costs are unconditional because processes such as data collection, data analysis and data compilation need staff and the staff have to be paid. Tangible costs are measurable, and immediate costs are those incurred during the design and implementation of the measurement system. The benefits of performance measurement systems are conditional because they depend on whether performance measures inform, among other matters, decision-making and resource allocation. Intangible benefits can be identified by asking, “How do you value knowledge on improvement, better decisions, [and] better accountability?” Finally, the benefits of performance measurement systems go through learning cycles, and learning cycles take time. That is why the benefits of performance measurement are unlikely to be seen immediately after the system is implemented.

Gueorguieva et al. (2009) have carried out extensive exercises to establish the connection between the performance measures of PART and its budget. The study analyses seven programmes and concludes that there is no connection between the measures and the budget. This finding confirms Moynihan and Andrews (2010) (see discussion in Section 2.4.3). Some authors such as Ammons and Rivenbark (2008) , Hatry (2002) and Poister and Streib (1999) find that the actual use of indicators tends to be lower than the activity need to produce the indicators. In other words, the production of indicators is not necessarily followed by the use of those indicators to inform decision-making.

Cavaluzzo and Ittner (2004) suggest that the development of a performance measurement system is driven more by the need to meet regulatory requirements, rather than a wish to improve performance or increase accountability, which confirms institutional theory. McNab and Melese (2003, p. 91) refer to the GPRA, indicating that it does not reduce costs or improve performance.

2.4.5 Dysfunctional Effects

Measuring performance is not a neutral activity, but one which affects behaviours (Bouckaert and Halligan, 2008). A recent study (Abu Hasan et al., 2013) also suggests that “the auditees come across as intelligent actors in the assessment process, not merely as passive recipients of an externally imposed structure” (p. 319). Jones and Pendlebury (2010, p. 28) argue that unintended consequences of performance measurement are a logical consequence of the difficulty in establishing causal relationships between inputs, outputs and outcomes, no matter how sophisticated the analysis of performance conducted. Thus, unintended consequences are assumed to be a ‘norm’ in measuring performance.

Substantive evidence of dysfunctional effects has been documented in the literature: Propper and Wilson (2003) demonstrate evidence from the health and education sectors, Bevan and Hood (2006) from the health sector, Wiggins and Tymms (2002) compare dysfunctional effects between English and Scottish primary schools, and Barnow (1992) discusses the effect of performance standards on state and local programmes in the United States. Heckman et al. (1997) assess the impact of performance measurement standards in the Job Training Partnership Act (JTPA) case, also in the United States. McLean et al. (2007) present evidence from local authorities in England. For example, the output indicator for leisure services is measured through “the extent to which an authority succeeds in promoting its leisure facilities to the public”. A specific measure is “the number of swims per square foot of pool area” (p.

114). Firstly, the local authority has closed some pools, leaving one to serve people who are keen to swim. Then, pool slots have been allocated to members of swimming clubs “at the expense of swimming lessons or general sessions for the public”.

To summarise, there has been a lack of evidence regarding the use of information produced by performance measurement systems as a means to improve performance. At the same time, many studies have documented substantive evidence of the dysfunctional effects of performance measurement systems. These seem to prove Broadbent’s (2003) statement: “we may be chasing the crock of gold at the end of the rainbow” (p. 7) when assuming that performance measurement will improve performance. Jones and Pendlebury (2010, p. 27) suggest that this condition continuously invites ways of introducing monetary measures of outputs and outcomes to improve performance measurement. Creating artificial markets (or internal markets for services provided by government) is one solution. Jones and Pendlebury (2010, p. 27) argue that these would provide a mechanism for service providers to produce conventional profit measures as if the service providers were treated the same as providers in the private sector who earn profits. Further exploration of this topic is, however, beyond the scope of this study.

2.5 Conclusion

The discussions in this chapter helped me to arrive at conceptual frameworks which can be used to analyse data at a later stage of this study (see Figure 2.4 and 2.5). Figure 2.4 presents the integration between the division of performance measurement phases and factors influencing performance measurement systems.

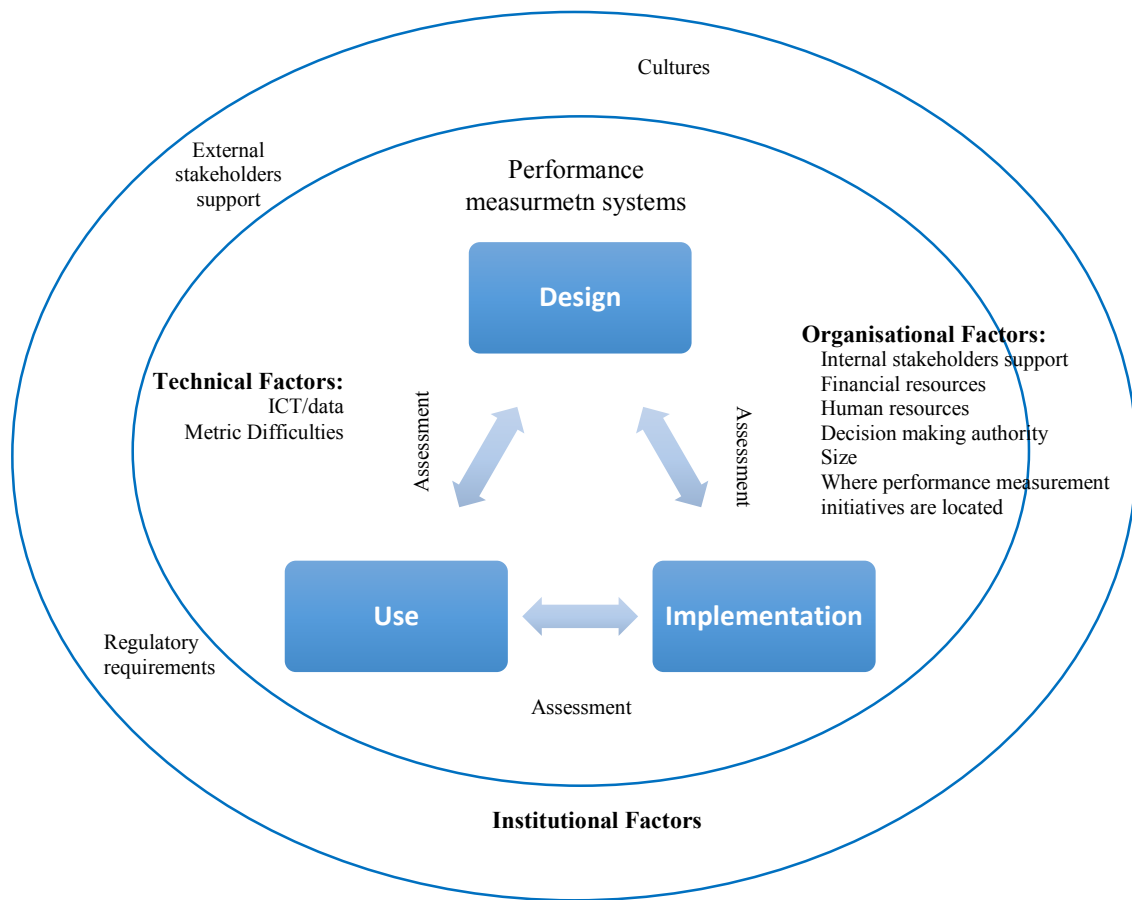


Figure 2.4 PMSs Showing Main Phases and Contingency Factors
Source: Developed by author

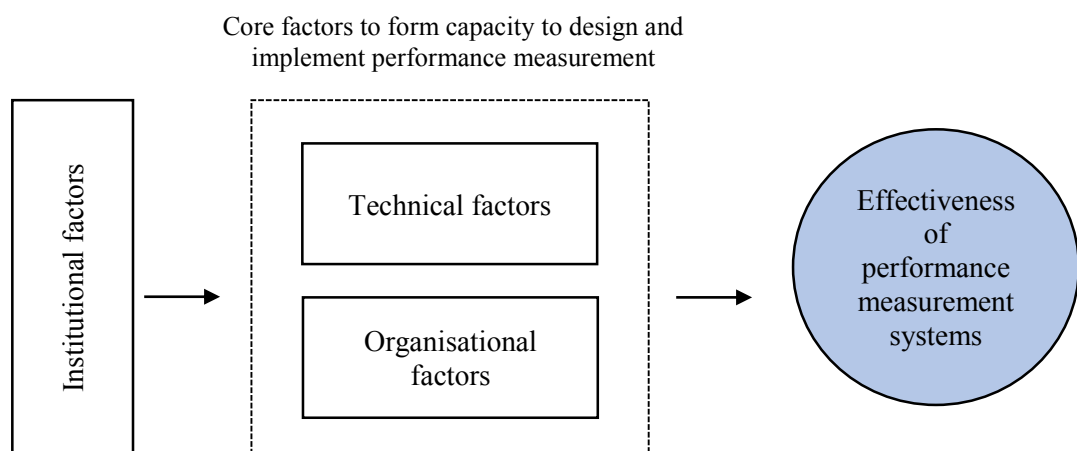


Figure 2.5 Factors Influencing Performance Measurement Systems
Source: Developed by author

Figure 2.5 show a simpler presentation of Figure 2.4, with the link made to the effectiveness of performance measurement systems. These frameworks will be developed further in the next chapter, particularly the elements of institutional factors.

The discussion in this chapter has also bridged the different streams of literature, allowing the links between different studies to be better understood. The discussion has also showed how insights from institutional perspectives can be integrated into a contingency-based framework in studying performance measurement systems.

CHAPTER 3

PERFORMANCE MEASUREMENT IN DEVELOPING ECONOMIES

3.1 Introduction

The discussion in the previous chapter has resulted in a conceptual framework that can be useful to analyse my data at the later stage of this study. As the framework was developed entirely based on the literature focusing on performance measurement in the context of developed economies, further development of the framework is needed to reflect the institutional context of the developing economies. The terms ‘developing economies’ and ‘developed economies’ as used in the previous chapter refer to the World Bank’s classification of its member countries. Based on gross national income (GNI) as of 1 July 2012, member countries are classified into three broad categories, namely high, middle and low income economies. Low income economies refers to countries with a GNI level of \$1,035 or less. Middle income economies are differentiated into lower middle income (GNI \$1,036 to \$4,085) and upper middle income (GNI \$4,086 to \$12,615). Finally, countries with a GNI level of \$12,616 or more are classified as high income. The World Bank (2013) also refers to the first three groups (low income, lower middle income and upper middle income) as developing economies.³⁴

³⁴ The World Bank (2014) explains that the interchangeable use of the term *country* with *economy* has no implication for ‘political independence’ but merely refers to ‘any territory for which authorities report separate social or economic statistics’. Then, the term *developing* used to denote ‘low and middle income countries’ does not reflect similar levels of development experienced by all economies in the group. It also does not mean that other economies have achieved a preferred or final stage of development.

This chapter aims to identify specific characteristics of the public sector in the developing economies and to further develop the conceptual framework that was developed in the previous chapter. The discussion in this chapter indicates some important findings. First, the design, implementation and use of performance measurement systems is likely to face higher challenges in this context compared to in the developed economies, due to the effects of contextual factors. Second, the role of international donor agencies (e.g. the World Bank) is very important in relation to how the idea of performance measurement was disseminated in this context. Therefore, the driving forces for adoption of performance measurement systems in this context can be associated with institutional isomorphism mechanisms (DiMaggio and Powel, 1983). Good governance and neoliberalism are two concepts which, it can be argued, are associated with the interests of international donor agencies involved in performance measurement in developing economies.

The chapter starts by discussing the current state of performance measurement in the context of developing economies. This section includes a discussion related to supply and demand for performance measurement in the context of developing economies and an elaboration of the conceptual framework developed in Chapter 2 with the contextual factors of the developing economies. The next section explores the history of how the developing economies have embraced performance measurement, with the objective of understanding the position of international donor agencies in this. The discussion then moves on to the development paradigms adopted by the international donor agencies. This section covers two important concepts in the development discourse: neoliberalism and good governance, which will help in the understanding of the interests of international donor agencies attached to performance measurement in developing economies. Finally, the last section offers a conclusion.

3.2 Performance measurement in Developing Economies

As mentioned in the introductory chapter, research on performance measurement in the context of developing economies is still underdeveloped. Mimba et al. (2007) were the first to identify what factors influence performance measurement in this context. Using the supply and demand approach, it shows the imbalance between increasing demand for performance measurement and the limited supply of information (see Figure 3.1).

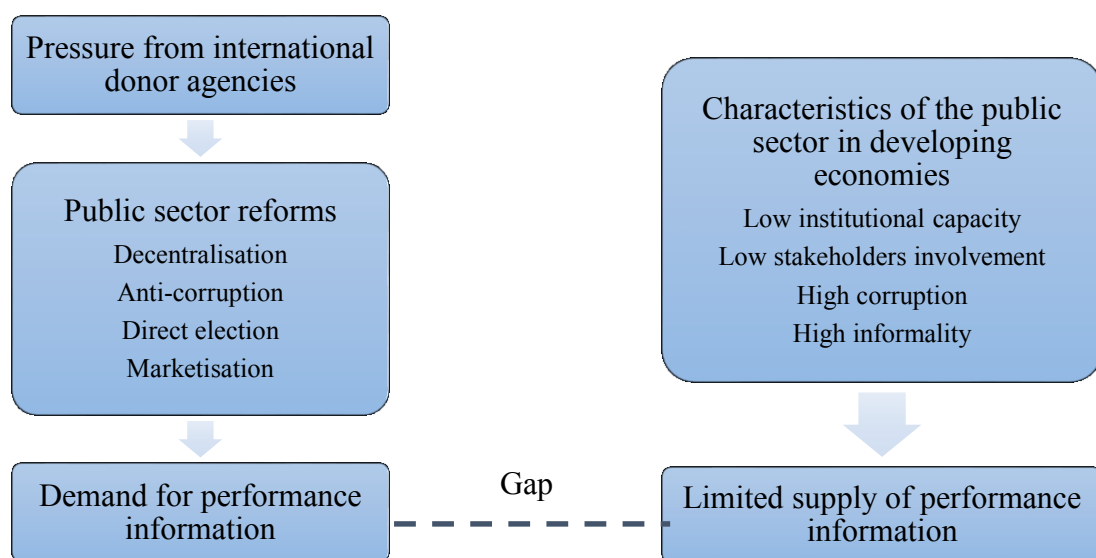


Figure 3.1 Demand for and Supply of Performance Information in Developing Economies

Source: Simplified by the author from Mimba et al. (2007)

As Figure 3.1 shows, the increasing demand for performance information in developing economies is associated with public sector reforms: decentralisation, anti-corruption, direct election and marketisation. At the same time, the limited supply of performance information is associated with four specific characteristics of the public sector in developing economies: low institutional capacity, low stakeholder involvement, high corruption and high informality. The elements of framework will be discussed further below (see points 3.2.2 and 3.2.3).

Mimba et al. (2007) define demand for performance information as the actual/desired use of performance information, following (Mayston, 1985) and Ospina et al. (2004). Meanwhile, supply of performance information is defined in Mimba et al. as ‘the production of performance information by a public sector organisation’ (2007, p.193). This comprises several activities: (1) the selection of those areas of performance which are to be measured, (2) the developing of performance measures, (3) the collection and analysis of data, and (4) the reporting of performance information. Definition of ‘performance information supply’ in Mimba et al. (2007) covers the meaning of ‘design’ and ‘implementation’ phases of performance measurement (see definition of ‘design’ and ‘implementation’ in Table 2.3).

As also shown in Figure 3.1 above and mentioned in the introductory chapter, Mimba et al. (2007) connect ‘public sector reforms’ to supports and pressures from external stakeholders (i.e. international donor agencies). Furthermore, pressure from international donor agencies is associated with the objective to achieve ‘good governance’. The relationship between the three is explained by Mimba et al. (2007) as follows. Developing economies face pressure from international donor agencies to take on some reforms considered important for the creation of the conditions necessary for good governance. Good governance itself is assumed to be one of essential conditions needed to achieve the good performance of the public sector in developing economies. Developing economies perceive themselves to be under pressure to reform because good governance is very often made a condition by international donors to access its funding.

3.2.1 Public sector reforms and performance measurement

As suggested by Mimba et al., (2007), reform to the public sector can in turn stimulate increasing public demand for performance information. For instance, after decentralisation the national government may require local government to achieve good performance. Furthermore, elected leaders also need to demonstrate their ability to the local electorates. Local government

therefore needs performance measurement to facilitate communication of results to the national government (vertical accountability) and to the electorate (horizontal accountability). The involvement of a 'direct election' system to the position of district heads/mayors in their supply and demand framework implies that Mimba et al. (2007) refer to two different definitions of 'decentralisation' (political and managerial decentralisations).

Political decentralisation is the devolution of power to 'a locally elected body with some degree of autonomy and some local own revenue sources' (Devas and Delay, 2006, p. 677). Meanwhile managerial decentralisation is associated with the concept of new public management (NPM) reforms (see Hood, 1991; 1995; Hope and Chikulo, 2000; Lister and Betley, 1999). In terms of political decentralisation, devolution of power to the locally elected body suggests the addition of a new line of accountability (Smith, 1990). This is expected to influence performance measurement, as different stakeholders require different type of information.

Furthermore, the concept of anti-corruption refers to the fight against corruption which is prevalent in many developing economies. This has been top of the international donor agency agenda since open discussion about corruption began in 1996³⁵ (Greenless, 2006). Kenny (2009) differentiates between petty corruption (e.g. 'speed payments' and other small bribes to obtain everyday services) and grand corruption (e.g. payments to secure government contracts or major licenses, change regulations or influence the shape of laws). Mimba et al. (2007) state that their study focuses on the influence of petty corruption. Performance measurement is assumed to contribute to the effort to combat corruption because performance measurement is associated with an increase in transparency. With better transparency, corrupt behaviour among

³⁵ The period prior to 1996 was known as the 'prohibition era' when the use of word 'corruption' was prohibited in all of the World Bank's formal documents; it was also considered taboo (and highly politically sensitive) for borrowing countries to talk about it (Greenless, 2006).

public officials is expected to gradually decline. Finally, the introduction of a performance-based contract in a developing economy requires availability of performance information in order to select the best provider. That is why Mimba et al. (2007) include marketisation as the fourth reform to influence performance measurement.

3.2.2 Characteristics of the public sector in developing economies

The study of Mimba et al., (2007) also identified four characteristics of the public sector in developing economies which are considered to hinder performance measurement. The four characteristic identified include low institutional capacity, low level of stakeholders' involvement, high corruption and high informality. Each characteristic is discussed below.

Institutional capacity

Mimba et al. (2007) define institutional capacity as the ability of governmental organisations to decide and achieve their goals. This definition follows World Bank (2004b) and Howitt (1977). Mimba et al. (2007) suggest the common features of a governmental organisation with low institutional capacity are as follows: (i) weak regulatory practices, (ii) weak public accountability, (iii) inefficiency in administration, (iv) limited human resources, (v) lack of facilities, and (vi) lack of financial resources. Their study also notes a number of implications of the given features:

1. Delivery of public goods and services involves lengthy bureaucratic procedures and is not transparent (see also Henderson, 2001);
2. Provision of public goods and services in terms of quantity and quality is insufficient (see also Haque, 2003), and
3. Stakeholders have very little information regarding the attainment of objectives of public sector organisations.

Mimba et al. (2007) thus focus on the impact of weak institutional capacity on the behaviour of public officials and their incentive to deliver performance information. They suggest that public sector organisations tend to be reluctant to share performance information because of anxiety about any internal failures becoming public knowledge, an argument supported by Bell (1996).

For the purpose of the current study, it is also useful to look at the definition of institutional capacity from earlier literature (see Honadle, 1981) which describes it as:

The ability to perform administrative practices “well” by reliance on modern, efficient techniques is usually what is meant by “good” administration. Organizations not exhibiting “good” administrative techniques are said to lack “capacity.” Examples of such administrative practices are internal resource allocation (e.g. budgeting, accounting), information management (e.g. record keeping) ...’ (p.578)

As this quote suggests, an organisation with weak institutional capacity is likely to have an underdeveloped budgeting and accounting system. From the discussion in Chapter 2, it has been understood that an accounting system is part of a soft infrastructure which supports performance measurement. Another point to be highlighted from Honadle (1981) is that an organisation’s ‘capacity to attract resources is not necessarily the same as its capacity to absorb the resources’ (p. 577). Honadle (1981) says that capacity to absorb resources and capacity to attract resources have been distinguished because ‘not every organization with the ability to secure resources has the ability to ‘spend’ them’(p.577).

Stakeholder support and involvement

Stakeholder involvement as discussed by Mimba et al. (2007) refers to the active participation of all stakeholders in the process of decision-making. Stakeholders here include public officials, non-governmental organisations, and international donor agencies. Mimba et al. (2007) suggest that international donors tend to gain influential or powerful positions in

developing economies because of the resources they own in terms of financial and human resources. They thus become active stakeholders in demanding performance information.

Corruption and informal practices

Mimba et al. (2007) refers to 'petty corruption' such as bribery in provision of the normal public services, which is consistent with how Mimba et al. (2007) define informality:

the mechanism through which individuals or groups influence organisational decisions and activities without having a formal authority to exert that influence, and/or without aligning the content of their influence with the goals and policies that are laid down in official documents (p.198).

This definition of informality follows the work of Abernethy and Vagnoni (2004) and Meyer and Rowan (1977). Using this definition, Mimba et al. then focus on the impact of informality on the inconsistency between the 'formal goals, policies and authority structure of an organisation, which are laid down in official documents, and its actual day-to-day decisions and activities' (p.198). 'Day-to-day activities' can be understood as activities performed by public officials in delivering public services as part of their defined and expected work responsibilities, for example in issuing licences. Mimba et al. (2007) suggest that the informal ways are preferred in getting things done, although extra payments should be given.

Schick (1998) discusses informal practice specifically in connection with budgets, suggesting that many developing economies tend to have two types of budget: the one presented to the parliament and the real budget that 'determine[s] which bills are paid and how much is actually spent' (p.128). Schick (1998) acknowledges that in one sense informality has a positive side, in that 'it cuts through red tape, unresponsive, bureaucratic and bad policies' (p.128). However, informality also opens the door for corruption and inefficiency; Schick (1998) refers to this as 'the mixed blessing of informality.' Off-budget expenditures affect the reliability of expenditures reported in the formal documents, and as performance measurement may require

information from budget and expenditures records, then if the reliability of the records is compromised by informal practices, there will necessarily be an impact of off-budget expenditure practices on performance measurement.

To summarise, Mimba et al. (2007) have contributed to the development of performance measurement literature in developing economies by providing us with understanding of two things: (1) what forces are assumed to be drivers for increasing actual or desired use of performance information in developing economies, and (2) the special characteristics of the public sector in this context which hinder production of performance information. Mimba et al. also imply that performance measurement in developing economies has a connection with the development discourse. This will be the point of departure for discussion in section 3.3.

3.2.3 Factors Influencing Design, Implementation and Use: Further development

Table 2.5 summarised factors that are expected to influence the design, implementation and use of performance measurement systems. The elements included in this table will be elaborated with specific characteristics of the public sector in developing economies and the reforms discussed in the previous sub-sections, in order to reflect the influence of the contextual factors of the developing economies in the conceptual framework built.

Design Factors

Technical Factors

As Mimba et al. (2007) identify and discuss, the public sector in developing economies is characterised by low institutional capacity. This characteristic will implicate many elements included in Table 2.5. First, lack of facilities (Feature 5 of low institutional capacity, see point 3.2.2) corresponds to ‘ICT capacity/data availability’. The limited capacity of ITC to provide valid, reliable, and complete data in a timely and cost-effective manner is still a problem even

in the context of developed economies, as discussed in the previous chapter. In the developing economies, the problem is expected to be much more severe. In other words, the availability of data will be more difficult in this context compared to in the developed economies. Further investigation is required on how ICT capacity/data availability has affected the design of performance measurement systems in the context of developing economies.

‘Lack of facilities’ combined with the other two features, ‘weak public accountability’ and ‘inefficiency in administration’, will connect to metric difficulties, particularly measurement of cost and reliability of measures.³⁶ The connections can be explained as follows. As discussed in Chapter 2, performance measurement requires the measurement of costs of services on a full of accrual basis, while the accounting systems of the developing economies tend to still be under-developed. Earlier literature (see Dean, 1988) indicates that government accounting records of developing economies tend to be inaccurate and unreliable. Therefore, according to Tillema et al. (2010), “this can be one of the circumstances that will hinder the design and use of performance measurement systems, which build on more basic financial management systems” (p. 204).

Tillema et al. (2010) note that in the developed economies, the necessary basic systems (e.g. accounting systems) have been developed and therefore, they can start of using performance information to achieve performance improvements. In developing economies such as Indonesia, the introduction of accrual accounting systems at local government level is now underway. The implementation however is impeded by many obstacles, particularly in terms of human resources capacity at the local level (McLeod and Harun, 2014) which suggests that

³⁶ Measurement of cost and reliability of measures are the first and second elements of measurement challenges defined in Chapter 2 respectively.

full implementation still has a long way to go. This discussion suggests the necessity of adding a new element to the technical factors: ‘supporting systems for performance measurement.’³⁷

‘Inefficiency in administration’ implies, for example, under-developed database management systems. With database management systems still under-developed and accounting records inaccurate and unreliable (Dean, 1988), we can expect low reliability of data reported for performance measurement. Next, disparities among regions in developing economies are expected to be higher compared to those in developed economies which implies that there will be higher challenge to develop comparable measures (i.e. developing procedures to account for uncontrollable factors will be more difficult). For the remaining elements of measurement challenges, I expect that similar challenges to those discussed in Chapter 2 will also be faced by the developing economies.

Organisational Factors

The first element of organisational factors discussed in Chapter 2 is ‘internal stakeholder support’. This factor is likely to be influenced by one of the reforms discussed earlier – direct election systems for the heads of local governments. A direct election system is part of a local democratic system (will be added as a new element of institutional factors). In the context of local government under direct election systems, internal stakeholders are civil servants working in local government with the highest position the general secretary of the local government. Although the heads of local governments (i.e. mayors/district heads) can still be considered as internal stakeholders, they hold a political position (i.e. elected leaders), which is a different position to career bureaucrats. However, a position such as the general secretary of a local

³⁷ The discussion about accounting systems (i.e. cost accounting systems) was a part of ICT capacity.

government can be seen as a managerial position. External stakeholders include for example the local parliament, local electorate and central government.³⁸

In the Indonesian context, an empirical study shows that the elected leaders are perceived to be the most powerful stakeholders by managers of local agencies. In responding to the conflict of interest among the elected leaders, local parliaments and central government, local agency managers will prioritise performance information which will be of interest to the elected leaders over the type of information that will be of interest to other stakeholders (e.g. local parliaments and central government). This behaviour will affect the design of local government performance measurement systems, as the selection of performance indicators or measures is aimed to serve the interests of the most powerful stakeholders (cf. Mimba et al., 2013).

Mimba et al. (2013) tested a conceptual framework developed by a previous study (Tillema et al., 2010) which classifies stakeholders into three different groups and defines the performance interest of each group. The first group is, purchasers who are interested in quantity and quality of services and costs of services. The second group is funding bodies, which will be interested in budget disciplines, budget allocation and financial governance structures and the third statutory boards, which are interested in political governance and structure. Applying this framework to the Indonesian local government context, Mimba et al. (2013) refer to the elected leaders as ‘purchasers’, central government as ‘funding bodies’ and local parliament as the ‘statutory board’.

Tillema et al. (2010) is adapted from Brignall and Modell (2000). Tillema et al. (2010) conclude that when one group of stakeholders dominates, performance information will be integrated throughout the organisational hierarchy and functional use of performance information is likely

³⁸ In Table 2.5, external stakeholders is classified as institutional factors. It is necessary to mention external stakeholders here because it connects to the discussions in the following paragraphs.

to happen. On the other hand, when more than one group of stakeholders are dominant, there will be a proactive decoupling of performance information throughout the organisational hierarchy and a partly symbolic use of performance measurement (see Figure 3.2).

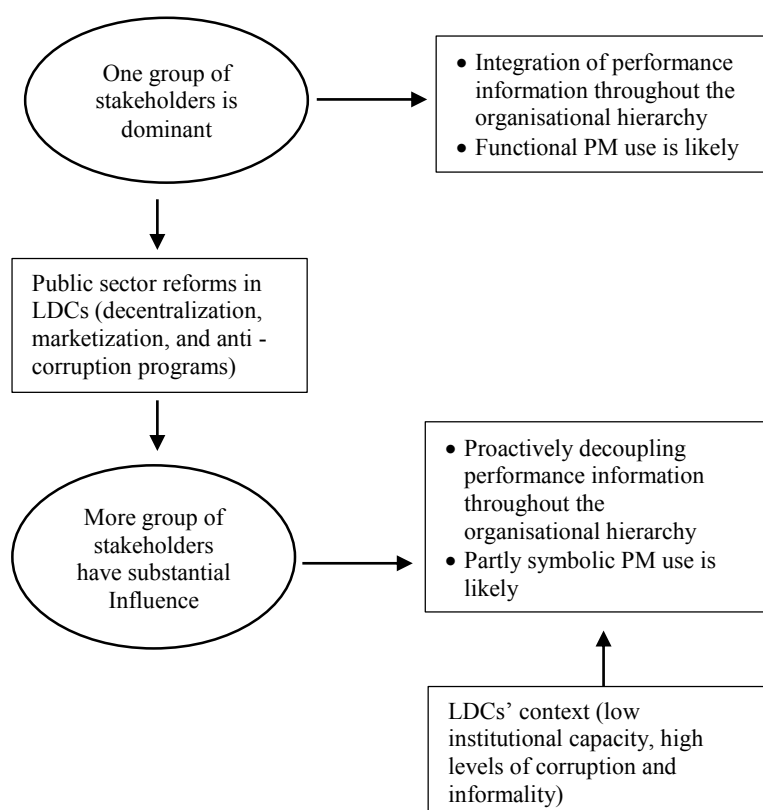


Figure 3.2 The Influence of Stakeholders' Interests on the use of Performance Information
Source: Tillema et al. (2010, p. 211)

As can be seen from Figure 3.2 above, reforms taking place in most of developing economies discussed earlier (i.e. decentralisation, marketisation and anti-corruption programmes) cause more stakeholders to gain substantial influence (i.e. more than one group of stakeholders are dominant). Exploring the design and use of performance measurement system in this situation is the venue for further research highlighted in Tillema et al. (2010) and Mimba et al. (2013).

The next features of low institutional capacity, 'limited human resources' – the fourth feature – and 'lack of financial resources' – the sixth feature – correspond to similar elements of the

organisational factors summarised in Table 2.5. Therefore, design is likely to be more difficult in the developing economies but how limited capacity of human resources and insufficient financial resources affect the design need further investigation. Next, the effects of other organisational factors on design (i.e. decision-making authority, size and where performance measurement initiatives are located) are expected to work in similar ways as those discussed in Chapter 2.

Local government type is likely to be associated with ICT capacity/data availability. This argument is based on Mimba et al. (2013), who find that urban local governments tend to be more developed and have a higher human resources capacity and better facilities than rural local governments. With these characteristics, design and use of performance measurement systems seemed to be better in urban local governments than in rural ones.

Institutional Factors

An empirical study finds evidence for the influences of factors such as ‘metric difficulties’, ‘technical knowledge’, ‘management commitment’ and ‘legislative requirements’ on the development of performance measurement systems in Indonesian local government but legislative requirement has the strongest effect, which suggests the presence of coercive isomorphism (cf. Akbar et al., 2012). The discussion of reforms and performance measurement in Section 3.2.1 indicates another form of coercive pressure in the context of developing economies: pressure from international donor agencies such as the World Bank (Mimba et al., 2007; Tillema et al., 2010). Both studies are supported by authors such as Pollit (2001) which states, “The World Bank or IMF or EU Commission insist on certain types of institutional reform as conditions for receiving assistance” (p. 937). Then, Bouckaert and Halligan (2008), who state that the government chose performance measurement and management because of isomorphic behaviour such as coercive and normative isomorphism by “pressure and

propaganda of supra- and international organisations (the European Union or OEDC towards Central and Eastern European countries, or by the World Bank, the Asian Development Bank towards developing countries)” (Bouckaert and Halligan, 2008, p. 61-62).

So far, I have elaborated the discussion about two specific characteristics of the public sector in the developing economies, namely low institutional capacity and low involvement of stakeholders, with the framework of the performance measurement systems discussed in Chapter 2. Another two characteristics (high level of corruption and high level of informality) have not yet been elaborated. These two characteristics will be added as new elements of institutional factors. The influences of both corruption and informality may be rather difficult to directly observe. Instead, their influence is likely to be manifested in other factors (i.e. technical and organisational factors). In other words, their influence will intensify or affect other factors such as availability of data, measurement challenges, and internal support. For example, as indicated earlier, corrupt officials might be reluctant to engage in performance measurement initiatives (Mimba et al., 2007; Tillema et al., 2010). Other forms of influence by both corruption and informal practices need further investigation.

Implementation Factors

The most significant issue for the implementation phase will be ICT capacity/data availability. Similar to the previous discussion, this relates to the characteristic of low institutional capacity. With an under-developed ICT system, the data collection and data analysis are likely to rely on manual systems. Moreover, lack of financial resources may cause insufficient training for staff and managers dealing with performance reporting. Given their limited capacity, lower level staff dealing with data collection, for example, may have difficulties in understanding and interpreting measures, which can lead to them collecting and reporting inappropriate data.

Hence, limited capacity of ICT will correspond to size. The larger the size of the local government, for example, the more difficult the implementation will be (more data needs to be collected and processed while ICT capacity is limited). As regards local government type, implementation in rural areas will be more difficult than in urban ones, because urban areas tend to be more advanced than rural ones, as found by Mimba et al. (2013) and discussed earlier. However, this may correspond to internal stakeholder support. The complex interactions among these factors need further investigation.

In the developing economies, regulatory requirements not only provide the reasons for adopting new management techniques such as accrual accounting systems or performance measurement systems (which represent the process of coercive isomorphism) can also impede implementation. This argument is based on the finding of a recent study on public sector accounting reform at the local government level in Indonesia (see McLeod and Harun, 2014). One of the findings of their study indicates that uncoordinated and conflicting regulations issued by different ministries such as by Ministry of Finance (MoF) and Ministry of Home Affairs (MoHA) is one of the main reasons that hinder local governments' capacity in adopting an accrual accounting system. Other factors are expected to work on implementation in a similar way to those discussed earlier in the point about design.

Use Factors

As Schick (1998) states and discusses (see point 3.2.2), one form of informal practices in the developing economies is that they tend to operate using two versions of budgets: the one that is presented to the parliament and the real budget that they use for day-to-day operations. This indicates the culture of reliance on informal information to inform decisions, instead of information written in formal documents. Based on this, I expect that informal practices will affect the use of information produced from performance measurement systems. Finding

empirical evidence for how informal practices can affect use will fill in the gap in the literature, as the existing studies (e.g. Mimba et al., 2013) have not yet captured empirical evidence for the influence of informal practices.

Corruption is expected to affect use, as “corrupt officials and civil servants tend to make decisions mainly based on assessment of their personal gains, rather than on an assessment of the influence on organizational performance” (Tillema et al., 2010, p. 204). This means that the influence of corruption (institutional factor) works through internal stakeholder support for performance measurement (organisational factor). The low involvement of stakeholders in the context of developing economies in the past seems to explain the small incentive to use performance information in this context (Tillema et al., 2010). They predict that the increasingly active involvement of stakeholders, such as international donor agencies, will influence use.

Factors	Phases influenced		
	Design	Implementation	Use
Technical Factors			
ICT capacity/data availability	x	x	x
Supporting systems for performance measurement	x		
Metric difficulties:			
• Measurement of cost			x
• Reliability of output measures			x
• Causal relationships between inputs and outputs	x		
• Comparability of output measures	x		x
• Comprehensiveness vs. concision in reporting	x		x
• Controllability of performance	x		x
• Unclear prescription on how to use measures	x		
Organisational Factors			
Internal stakeholder support	x	x	
Financial resources	x	x	
Human resources	x	x	
Decision-making authority	x		
Size	x		
Location of performance measurement systems	x	x	x
Type of local government	x	x	
Institutional Factors			
Regulatory requirements	x		
External stakeholder support			
Local democratic system (i.e. direct elections)	x	x	x
Cultures			
Corruption		x	x
Informal practices		x	x

Table 3.1 Expected Factors Influencing Design, Implementation and Use in the Developing Economies

Source: Developed by author

To summarise, the framework of the performance measurement systems cycle developed in Chapter 2 has been elaborated with contextual factors found in the developing economies. The influences of some factors will be implicated by contextual factors of the developing economies such as ICT capacity/data availability and internal stakeholder support for performance measurement, but the influence of other factors is expected to remain similar to that discussed in Chapter 2, such as the influence of decision-making authority and location of performance measurement initiatives. Some new elements have been added into the framework, such as supporting systems for performance measurement, type of local government, pressure from international donor agencies, corruption, and informal practices (hence the significant expansion found in institutional factors). For technical and organisational factors, the discussion primarily demonstrates how institutional factors can intensify or reduce the effects

of the factors on design, implementation and use. The discussion indicates that interactions among different factors is likely to be much more complex in this context compared to in the developed economies.

3.3 Role of international donor agencies

No academic study systematically documents the history of how international donor agencies have been involved in promoting performance measurement in the context of developing economies. There has therefore been no study similar to Williams (2004), addressing performance measurement in the context of developing economies. One way to trace the history of performance measurement in developing economies is by reviewing donor documents (particularly World Bank Reports) and consultant reports.

Thorough reviews of the work of the Operation Evaluation Department (OED) of the World Bank show that the World Bank has been the key actor in bringing the concept of performance measurement into the context of developing economies. The OED is an independent evaluation arm of the World Bank, lately known as the Independent Evaluation Group (IEG). The Department was created on July 1, 1973, with a formal mandate to mainstream performance measurement under the Bank's own operation and to accelerate performance measurement development in borrowing countries. This formal mandate was received in 1986, since when the OED continues to be recognised as a strong proponent for performance measurement development in developing economies (World Bank, 1998). As the World Bank is an international donor agency with a formal mandate to mainstream and accelerate performance measurement in borrowing countries, it seems logical to follow the Bank's own classification of its member countries in this study as mentioned in the introduction chapter earlier.

The efforts to introduce and accelerate this can be divided into three distinct periods: (i) the emergence of demand for performance measurement in the 1980s, (ii) the renewed interest in performance measurement in the 1990s, and (iii) the transformation of performance measurement in the 2000s. Each period is discussed below. To avoid confusion, it is important to note that the World Bank Reports do not use consistent terms to refer to performance measurement. Commonly-used terms include ‘evaluation’, monitoring and evaluation’ (M&E) and ‘results-based development’ to refer to the concept of ‘performance measurement’ (see for instance (World Bank, 1994, p. ix - x). The inconsistency of terms used has been acknowledged by the World Bank (World Bank, 1998, p. x):

There are many types of evaluation tools, which can be used in a variety of ways. These tools are related – in that they deal with the concept of performance – but they can lead to confusion, exacerbated by the different terminology employed by evaluation practitioners. Regardless of the terms used: ongoing monitoring and performance information; project and program evaluation – ex ante, ongoing/formative and ex post/ summative; performance (or value-for-money) audits; financial auditing, they all address performance measurement. This broad spectrum of performance measurement activities is also known by other generic labels, such as monitoring and evaluation (M&E).

The broad spectrum definition of performance measurement adopted by the World Bank (1998) is consistent with Proper and Wilson’s (2003) thesis which suggest that performance measures ‘come in a variety of forms.’ For instance, measures may come from an in-depth evaluation of an organisation’s performance. Measures may also be derived from administrative data and comprise the collection and publication of summary performance measures. Between the two forms, measures can be based on the collection of detailed data specifically for the purpose of performance management.

As mentioned earlier, performance measurement does not refer to a particular technique; Williams’s (2004) historical analysis of performance measurement also supports a broad

spectrum definition of performance measurement. This study will rely on the World Bank's publications/documents to understand how developing economies embraced performance measurement. Accordingly, this study will also adopt a broad spectrum definition of performance measurement.

3.3.1 The rise in interest in performance measurement in the 1980s

A consultant report notes that international donor agencies, for example UNDP and USAID, started to introduce performance measurement in developing economies in the 1960s (see Schaumburg-Müller, 1996). Next, the World Bank began experimenting with performance measurement in 1980s, after the creation of the OED mentioned above.

Early engagement of developing economies with performance measurement

The concept of performance measurement (linking inputs and outputs) was first introduced to developing economies in relation to the completion reports of projects funded by the World Bank. According to Willoughby (2003), prior to 1975, operating departments within the Bank increasingly asked borrowing countries to prepare their own project completion reports. However, due to the lack of capacity of many of these countries, these reports frequently did not meet the expected standard. From October 1975 onwards a tendency therefore arose in the OED to systematise project completion report processes, putting heavy emphasis on the self-evaluative aspect of the report. The OED then started to assist the development of self-evaluation capacity within the governments of interested member countries. Weiner (2003) argues that the project completion report is thus the foundation of the Bank's evaluation system and the reason for the spread of performance measurement ideas to borrowing countries.

Weiner (2003) also suggests that the capacity of the OED itself was insufficient to produce project completion reports. As a result, some reports were high quality but others were not

produced at all. Some reports submitted to the Board were inadequate, containing information similar to the supervision documents, in other words, the report merely informed donors of the implementation history of the project. At times, reports contained serious deficiencies, risking the longer-term vision of the OED. The implication was that Operation Evaluation was unable to bring the deficient completion reports up to the Board's standard.

Building up of performance measurement capacity

This inadequate capacity of the OED to systemise project completion reports was made worse by the fact that by the mid-1980s the effectiveness of development aid was being increasingly questioned (Rovani, 2003, p. 31), implying that the need for performance measurement in the Bank had enormously increased. This led to the Bank having, by 1986, a significant resource problem. The serious cumulative backlog of project completion reports coupled with the level of deterioration in reporting indicated that the World Bank's performance measurement system as a whole was about to collapse.

In 1986 therefore, the Bank started to persuade the governments of borrowing countries to become involved in a performance measurement capacity development programme. According to Rovani (2003), Brazil was the first country assisted by the Bank to build its performance measurement capacity (this was in relation to an environmental impact project). The World Bank realised that helping borrowing countries to develop their own performance measurement capacity was just as important as promoting performance measurement within the Bank itself. Performance measurement capacity development at this time, however, was focused merely on governments showing the commitment to provide the necessary resources. Performance measurement initiatives during the 1980s can be thus considered as the first period of performance measurement development in a developing economy context.

3.3.2 The Renewed interest in performance measurement in the 1990s

During the 1990s there was a strong re-emphasis on performance measurement. This renewed interest can be argued to have had a close connection to the end of the Cold War. There was an important change in donor countries' policies regarding foreign aid, one which directly affected the availability of development aid managed and distributed by bilateral donor agencies such as USAID, or international donor agencies such as the World Bank. With the collapse of the Soviet Union and the fall of the Berlin Wall, Doornbos (2001) suggests that it was no longer necessary to gain support from developing economies for western democratic ideas. The immediate impact of this policy change was a scarcity of development resources experienced by all donor agencies and the risk of deep cuts in funding as acknowledged by the OED (World Bank, 1994). The scarcity of development resources forced donor agencies to focus their concern more on the effectiveness of development programmes and to look for resilient and cost-effective performance measurement systems to assist in management oversight and policy evaluation (World Bank, 1994, p. ix). Similar argument is provided in Schaumburg-Müller (1996).

Thus, by the 1990s, the international donor countries themselves also faced increasing demand from their own citizens for greater accountability in terms of foreign aid expenditure. Tax payers finance development aid programmes, and stakeholders in donor countries started to question what results had been achieved from the millions of dollars of their tax money which had been allocated as development aid for developing economies. In this period, the term 'results based development' emerged. The effect of the scarcity of development resources and greater demand for accountability over development aid programmes became a strong pressure for donor agencies to focus on results, improve effectiveness of development aid programmes and improve their accountability to donors (Mackay, 2006).

The connection between the pressure faced by international donor agencies and the need for performance measurement is indicated in Mackay's (2007) statement:

And international donors are being pressed to demonstrate the results of the large volumes of aid spending for which they are responsible; they in turn are working to persuade and support developing countries to strengthen their own M&E [performance measurement] systems (p.1).

The focus on results brought about another implication to development aid. Leahy (1993) argues that donor-funded projects should also have tangible results for donor countries. In other words, donors should question what would be the direct benefits for donor countries of any development aid. This notion seemed to affect the areas that donors were interested in funding. In the United States, for instance, the three areas proposed to be financed through foreign aid by American citizens are presented in Table 3.2 below.

Areas	Meaning
Global environment	Development aid should contribute to creating of a healthy global environment that is defined as a condition where natural resources used wisely and there is balance in the world's population with the ability of the Earth to sustain it
Democracy	Development aid should improve democracy which refers to the existence of pluralistic systems with open and responsive government and people participation
Economy	Development aid should open the door to market US products, economic justice and participation for the peoples in less developed economies.

Table 3.2 US Development Aid Proposal
Source: Leahy (1993)

The three areas were considered to directly affect the quality of life or wellbeing of American people (Leahy, 1993).

The global environment for instance should be an area of interest to be funded through development aid, as developed and developing economies live on the same earth as Leahy (1993, p.40) points out:

The destruction of the Earth's remaining forests, most of which are located on other continents where exploding populations are destroying the natural resource base, threatens to dramatically change our own climate.

The implication of the shift in the areas that should be funded through development aid programmes was that donor agencies were now operating under new priorities. As the World Bank (1994) states 'programs and projects are now measured against multiple goals, including sound economic governance, private sector development, and the promotion of participatory, equitable, and environmentally sustainable development.' Economic governance, participatory, environmentally sustainable development are clearly linked to three broad areas suggested by Leahy (1993) discussed earlier. This is evidence that donor agencies such as the World Bank will respond to changes in donor countries' policy.

In relation to environmental issues mentioned earlier, the academic literature, however, suggests that the causes are linked to energy and consumer consumption in the USA and UK and I agree with this view. The findings of Soytaş et al. (2007), for example, suggest that "in the long run the main (statistical) cause of CO₂ emissions in the US is energy consumption" (p. 487). Therefore, the relevant factor to be considered for emission reduction policies is actually energy consumption, as reducing energy consumption will decrease carbon emissions.³⁹ A study in the UK (see Lorenzoni et al., 2007) also indicates that climate change is linked fundamentally to energy consumption: more specifically, changes in the energy supply mix contributed to increased main greenhouse gases.⁴⁰ Therefore, a radical change in values, behaviour and institutions towards a paradigm of lower consumption is needed in the UK, as they suggest.

³⁹ Carbon dioxide (CO₂) emissions are examples of greenhouse gas emissions (GHG) that are considered to be the main causes of global warming, an important current example of an environmental issue (Soytaş et al., 2007).

⁴⁰ 'Energy supply mix' refers to "increasing the use of gas compared to oil and coal (known as the 'dash for gas') since the late 1980s" (Lorenzoni et al., 2007, p. 445).

Importance to donors of performance measurement in developing economies

Performance measurement systems owned by borrowing countries (i.e. developing economies) can support the World Bank's performance measurement system. The stronger the performance measurement capacity of borrowing countries therefore, the easier and cheaper the performance measurement task for the Bank itself, as it can rely more on data produced from performance measurement systems owned by borrowing countries (World Bank, 2002; 2004a). The same argument is provided by Mackay (2003):

...stronger M&E capacity in borrower countries can facilitate Bank M&E, but for countries themselves it is also a key element in sound governance. It provides access to reliable country data systems and to the work of the country's own evaluators. Strong M&E capacity, developed over the medium to long run, will make it possible for donors to rely on recipients to self-evaluate aid projects, subject to appropriate quality assurance, and it can also increase country ownership of evaluation results, increasing the probability that these results will be used. (p.113)

The main reasons for renewed donor interest in introducing performance measurement in developing economies in 1990s are summarised in Figure 3.3 below.

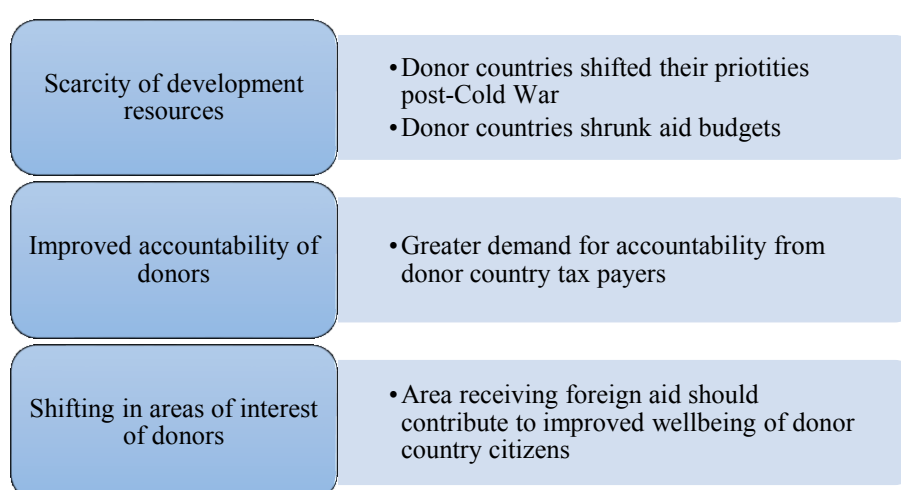


Figure 3.3 Renewed Interest in Performance Measurement in 1990s
Source: Developed by author

Performance measurement capacity development

Although international donor agencies recognised the importance of performance measurement, many performance measurement initiatives proved ineffective. In 1994, the World Bank formed a task force to investigate the reasons for the lack of success of past initiatives. The 1994 Task Force identified three main reasons for the ineffectiveness: (i) weak internal demand, (ii) performance measurement being a stand-alone activity, and (iii) weak ownership and political will on the part of borrowing countries. Weak internal demand was the most challenging aspect of performance measurement initiatives needing to be addressed. It can be argued that the borrowing countries perceived the initiatives (which related to project completion reports, see discussion in point 3.3.1) as merely serving the interest of international donor agencies. This argument is supported by Khan (1998).

Furthermore, being attached to projects funded by international donor agencies, the earlier performance measurement initiatives were a stand-alone activity. In other words, performance measurement in this period aimed solely to assess the performance of a project funded by donors. Project-based performance measurement was derived from the perception among the development community at that time that physical investment was the primary engine of development (Picciotto, 2002, p. 4). What mattered at that time was thus how many projects were completed. As the initiatives were connected to the projects funded by the international donor agencies, there were overlapping performance measurement requirements of multiple donors. For every individual project, there was a specific performance measurement requirement. Schaumburg-Müller (1996) notes that a serious problem thus arose when a project was funded by multi-donors. The need to satisfy multiple performance measurement requirements resulted in high transaction costs for borrowing countries.

The 1994 Task Force recommended several strategies to overcome these problems; these are discussed in World Bank (2002) and World Bank (2004a)⁴¹ and resulted in a significant change in approach being taken by the World Bank to introduce performance measurement into the borrowing countries. The Bank's overall strategy designed to improve the effectiveness of performance measurement initiatives is evaluation capacity development (ECD). ECD encompasses the effort and action needed to be taken by donors in order to ensure a performance measurement system is put in place and used in developing economies World Bank (2004a).

Figure 3.4 shows how ECD is conceptualised by the World Bank; each strategy is explained further below.

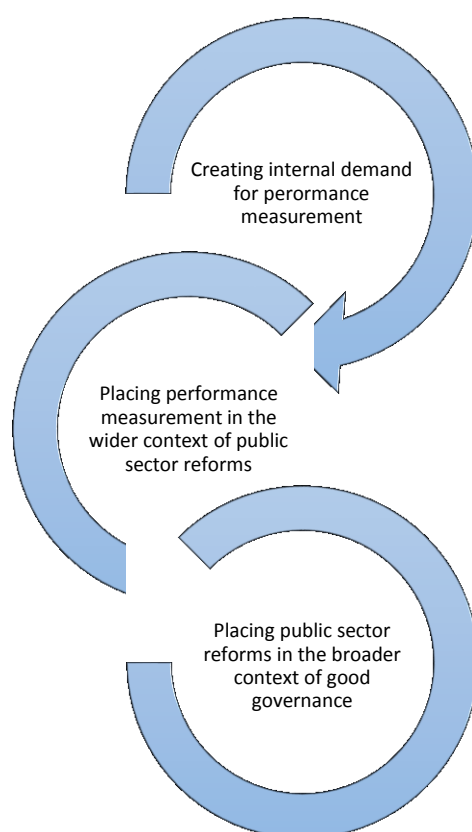


Figure 3.4 Evaluation Capacity Development of the World Bank

⁴¹ I made an attempt to access the original 1994 Task Force report. However, my contact at World Bank stated that this is considered as historic document by the Bank and public access to it is therefore restricted.

Creating internal demand for performance measurement

This first strategy was aimed at overcoming the weak internal demand for performance measurement in developing economies. According to Mackay, efforts to build performance measurement system will fail unless there is a real demand for it, or the demand can be intentionally created. Internal demand could be created by ensuring powerful incentives are in place to implement and use performance measurement (Mackay, 2007). The earlier work of World Bank (1998) suggests that internal demand could be created through sensitising key stakeholders to the need for and benefits from performance measurement, and then introducing suitable techniques and approaches by which to carry it out. Schaumburg-Müller (1996) mentions seminars and conferences as important examples of the demand generating activities.

Placing performance measurement in the wider context of public sector reforms

The second strategy – introducing performance measurement initiatives in a wider context of public sector management reforms supported by the World Bank – aims to address the second problem of ineffective performance measurement initiatives. As mentioned above, past initiatives for performance measurement tended to work as a stand-alone activity. Using this second strategy, the demand for performance measurement would not be so obvious. For example, in the reform to fight corruption as mentioned earlier, the logical connection between the reform and performance measurement could be easily established: performance measurement would contribute to the creation of transparency; with greater transparency, corruption it is hoped would gradually reduce. Knowing this might trigger the internal demand of stakeholders in developing economies. Introducing performance measurement in the context of public sector reforms might thus receive better acceptance from stakeholders in developing

economies where international donor agencies tend to provide support. Larbi (2006) suggests that a number of developing economies have introduced performance measurement as part of the public sector reforms taking place in their countries, presenting evidence that the second ECD strategy seems to work in practice. Picciotto (1998) states that ECD is not only about transferring skills pertaining to performance measurement, but also means fitting performance measurement structures, systems and processes to the new public reform strategies.

Placing public sector reforms in wider contexts of good governance

The third element of ECD is the enactment of public sector reforms within a broader concept, that is, one of good governance. This strategy aims to tackle that aspect of ineffectiveness of performance measurement initiatives which relates to the weak ownership and political will of stakeholders in developing economies. The significance of good governance is explored further in section 3.4 below.

To summarise, the past ineffectiveness of many performance measurement initiatives brought about the formulation of strategies to make such initiatives effective, conceptualised as ECD. ECD strategies are consistent with the findings of Mimba et al. (2007), implying that World Bank was successful at putting the ECD concept into practice. Although this chapter has mainly referred to the ECD of the World Bank, this is not the only international donor agency which has ECD. Other international donor agencies also have a similar concept. The Development Assistant Committee for instance, is an OECD department which has a mandate to build effective performance measurement systems in developing economies (Schaumburg-Müller (1996). Khan (1998) suggests that the UNDP also has a similar programme. ECD implies the intention of international donors to be the key actors for performance measurement in developing economies.

3.3.3 The transformation of performance measurement in the 2000s

Millennium Development Goals (MDGs)

Entering the new millennium in the 2000s, an agreement was achieved between developed and developing economies on targets that should be achieved by 2015. These are known as the Millennium Development Goals (MDGs)⁴². The MDGs have been agreed as a framework for measuring development progress covering eight areas (see Table 3.3). There are 18 targets and 48 performance indicators.

Goals	Description
1	Eradicate extreme poverty and hunger
2	Achieve universal primary education
3	Promote gender equality and empower women
4	Reduce child mortality
5	Improve maternal health
6	Combat HIV/AIDS, malaria, and other diseases
7	Ensure environmental sustainability
8	Develop a global partnership for development

Table 3.3 Millennium Development Goals (MDGs)

Source: UNDP (2006)

OECD and World Bank (2006) state that the MDGs provide ‘specific, measurable targets that are gradually being adapted at the country level as the basis for country outcomes and then monitored over time to help gauge progress.’ Moreover, Mackay (2006) suggests that the emphasis on achievement of MDGs targets requires a similar focus from both international donors and recipient countries. A further consequence of this according to Mackay (2006) is the requirement for an analysis of the country’s performance measurement system, particularly ‘the adequacy of available performance indicators’ (p.11). OECD and World Bank (2006) and

⁴² MDGs emerged from the world conferences organised by the United Nations in the 2000s and were endorsed by all 189 United Nations states.

Mackay (2006) imply that MDGs are likely to influence the development and system design of national performance measurement systems in developing economies.

The first area in the Leahy (1993) proposal in terms of those to be funded through development aid is captured in the MDGs. This was 'global environment (see Table 3.2), and equates to MDG 7 (environmental sustainability). Leahy's (1993) statement quoted on page 76 of this thesis explains donor interest on MDGs in terms of the seventh goal. Environmental degradation, regardless of where it occurs, could eventually affect all countries to a greater or lesser extent. It is thus also in the interests of donors to protect the environment in developing economies. The BBC (2014) for instance, suggested that the changing weather patterns in South East Asia could be the cause of the extreme weather which hit much of the United Kingdom early of 2014. This could also relate to the problem in deforestation. The largest tropical rain forests exist mostly in developing economies such as Brazil and Indonesia. Developed economies could thus be assumed to have an interest in ensuring environmental sustainability in developing economies.

The weakness of PMSs in most developing economies prompted the World Bank in particular and international donor agencies in general to put more effort into supporting and strengthening these systems through World Bank loans, grants and technical assistance. In other words, as donors re-emphasised:

Tracking of progress towards the Millennium Development Goals also calls for ECD, as does the growing realization that the quality of M&E for Bank financed programs and projects is inextricably linked with the capacities and systems of borrower countries. (World Bank, 2002, p.v)

Bangladesh for instance has requested help from the Asian Development Bank (ADB) to develop its PMS aimed at assessing the degree of its achievement of the MDGs (see Asian Development Bank, 2006). This is evidence that the existence of MDGs have motivated developing economies to establish a national PMS. Specifically in terms of the health sector,

Kruk and Freedman (2008) recognise that the use of performance indicators in developing economies has assumed greater importance since the introduction of the MDGs.

Global partnership development

In 2002, the new development approach was introduced aimed at accelerating the achievement of MDGs⁴³. This was known as the global partnership. The global partnership required ‘a reconfiguration of the development agenda; a reform of aid practices; and a **transformation of performance management, measurement, and evaluation systems**’ (Picciotto, 2002, p. 3, my emphasis). An example of reform in aid practice is the provision of aid in the form of block funding – broad budget support – in order to increase ownership of development programmes. More specifically, Picciotto (2002) refers to the transformation of performance measurement in terms of three main points. *Firstly*, performance measurement ‘should go beyond the measurement of inputs (number of projects, volume of commitments, disbursements, and the like) in order to capture programme results,’ (p. 10) i.e., outputs, outcomes, and impacts. This was because the effectiveness of development aid in the new approach would be measured in terms of its outcomes.

Secondly, performance measurement should focus on the country program instead of an individual project. The aim was to reduce various performance measurement requirements of multiple donors. This led to the emphasis on harmonisation of development aid programmes and eventually stimulated demand for *one single comprehensive* PMS in a recipient country, as a potential means to reduce high transaction costs. In addition, the pool funding approach agreed in the Monterrey conference of 2002 stipulated the requirement of performance information of the recipient country and greater reliance on the recipient country’s PMS.

⁴³ The approach was introduced in the conference organised by the United Nations in Monterrey Mexico in March 2002.

Thirdly, performance measurement should allow for tracking the progress of the MDGs achievement (see Picciotto, 2002, p.10).

To summarise, the two global initiatives seem to work in two directions. Firstly, the global initiative causes international donor agencies to put pressure on recipient countries to implement performance measurement in order to meet the global target. Secondly, the global agreement stimulates recipient countries to develop their national PMSs in order to accelerate achievement of the global target (i.e. MDGs) (see Figure 3.5 below).

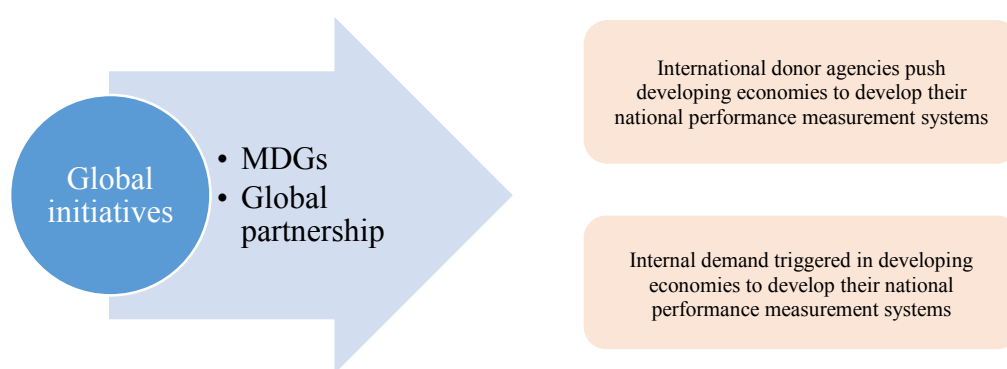


Figure 3.5 Mechanism of Recent Global Initiatives Influencing Performance Measurement in the Developing Economies Context

Source: Developed by author, based on World Bank reports

As developing economies constitute some of the recipient countries of the international donor agency funding or are borrowing countries of the World Bank, we can assume that the performance measurement idea was introduced by the international donor agencies.

Discussion in this section has shown that performance measurement in developing economies has a close connection to the development discourse. We can argue that this is one of the most distinctive features of performance measurement in developing economies compared to performance measurement in developed economies. We have also presented a considerable comprehensive discussion about the roles played by donors in the development of performance measurement in developing economies. From the concept of ECD formulated by the World

Bank, it is clear that donors have a role at every stage of performance measurement, starting from creating internal demand for performance measurement in a developing economy, making sure performance measurement is implemented and ensuring performance measurement is utilized. The three different periods of performance measurement efforts done by donors in accelerating performance measurement in developing economies can be summarised and presented in Figure 3.6 below.

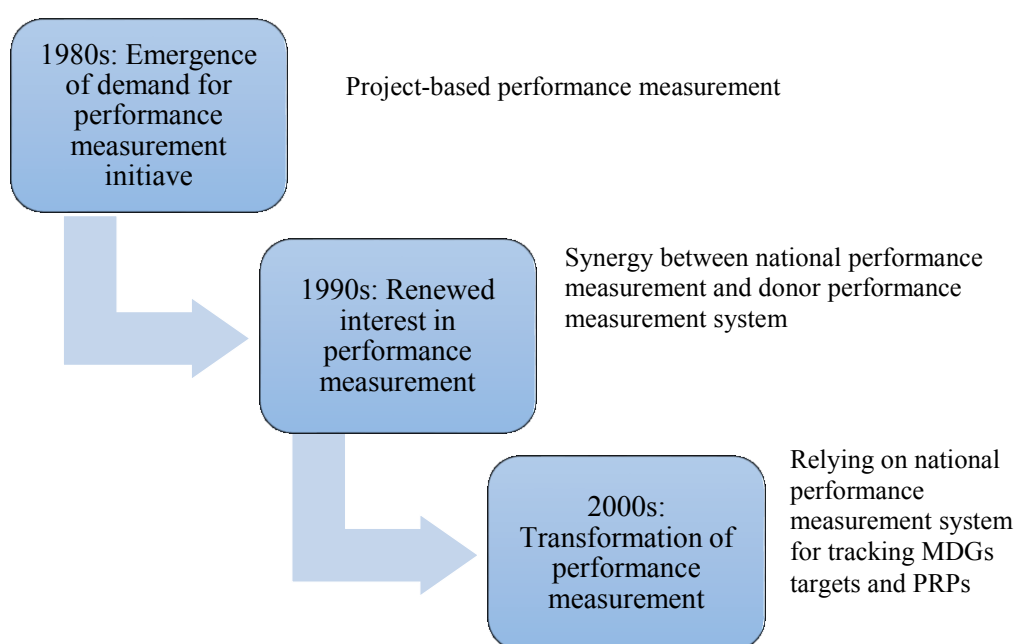


Figure 3.6 Three Periods of Performance Measurement Efforts by International Donor Agencies in Developing Economies

Source: Developed by author, based on World Bank reports

This section has described the long-standing efforts by international donor agencies to carry out performance measurement in order to accelerate performance measurement in developing economies. It clearly shows the important role of the World Bank in this regard. The interest of international donor agencies in performance measurement in developing economies can be connected to some points; for example, to help donor agencies with their own performance measurement system, to help with the harmonisation of development aid from different donors, and also to reduce the burden of developing economies themselves in serving the needs for

performance measurement from different donors. The next section seeks to understand the interest of international donors in performance measurement in developing economies from the perspective of neoliberal agenda.

3.4 Development paradigms of the international donor agencies

This section discusses development paradigms adopted by the international donor agencies, specifically the World Bank. A grasp of the World Bank's development paradigm will help to understand its interest in performance measurement in the context of developing economies. Two concepts are discussed in this section: neoliberalism and good governance. Assessing the connection between the two concepts may provide an opportunity to look at performance measurement in developing economies from a different perspective.

3.4.1 Neoliberalism

Harvey (2007) defines the concept of neoliberalism as a 'theory of political economy'. Neoliberalism is also defined as 'political economy paradigm' (Merino et al., 2010) or an 'economic order(s)' (Birch and Mykhnenko, 2010). Finally, for Morales et al. (2013) neoliberalism is an 'economic, political and social project.' All authors agree that neoliberalism is characterised by a number of core principles such as privatisation (strong private property rights), free trade, free market, and minimum role of state in the economy (the role of government is limited just to provide a guarantee for markets to function properly but there should be no intervention in the economy).

The concept of neoliberalism originated in the 1930s and can be associated with the work of Austrian economist Ludwig von Mises and Friedrich von Hayek (Birch and Mykhnenko, 2010). It gained momentum in the early 1980s, especially when President Reagan in the United States and Prime Minister Margaret Thatcher in the United Kingdom promoted the idea. It

quickly spread to the context of the developing economy introduced by the World Bank and the International Monetary Fund (well-known as firm supporters of neoliberalism) through what were known as structural adjustment programmes.

Structural adjustment programmes promoted a policy reform package which later became known as the 'Washington Consensus'. The term was invented by Williamson in 1989 (see Williamson, 1990). The reform package contained ten policies, covering fiscal discipline (there should be no public budget deficit), public expenditure priorities (subsidies should be ended, redirect public expenditures on basic health, education and infrastructure), tax reform (tax cuts), financial liberalisation, exchange rate (adopt free-floating rates), trade liberalisation (adopt unified low tariff), liberalisation of inflows of foreign direct investment, privatisation of state enterprises, deregulation (to abolish barriers to entry and exit) and secure property rights.

The World Bank used the so-called 'Asian miracle' as the cornerstone for promotion of the Washington Consensus (Baer et al., 1999; Jayasuriya and Rosser, 2001; Kiely, 1998). This was the term used to express the amazing growth of the East Asia economy in the 1980s while other developing economies such as Latin America, Africa and the Indian sub-continent were trapped in 'debt crisis' (Kiely, 1998). The Asian miracle was given as an example of how the Washington Consensus could be applied successfully in practice by international donor agencies. There was a broad agreement among international donors that if the Washington Consensus worked in East Asia, it should work for other developing economies (Baer et al., 1999; Jayasuriya and Rosser, 2001; Kiely, 1998). Based on this argument, the Washington Consensus was applied extensively in Latin America and African countries in the 1980s.

Critics of the Washington Consensus however, argue that the East Asian economy did not work according to its own principles (see Kiely, 1998), a view which clearly undermined the Consensus. More specifically, the high degree of market intervention did happen in the East

Asia economy. Responding to this, the World Bank acknowledged that market intervention did occur in the East Asian economy, but argued that the interventions were *market friendly* (see The World Bank, 1993, p.5). When the financial crisis struck Asian countries in 1997/98, the Washington Consensus came into question (Jayasuriya and Rosser, 2001; Sheppard and Leitner, 2010). Then, the president of the World Bank, Joseph Stiglitz proposed a post-Washington Consensus which would take a more holistic view of development.

According to Van Waeyenberge et al. (2011), two views of the post-Washington Consensus exist. One view assumes it to be a genuine departure from the concept of neoliberalism; the other sees it as a rhetorical instrument which sustains neoliberalism. Van Waeyenberge et al. (2011) themselves take a moderate view and perceive the post-Washington Consensus as ‘another phase of neoliberalism, rather than a break with it’ (p.7). This is consistent with (Van Waeyenberge, 2010) which concludes:

The imperatives characteristics of the Washington consensus remain entrenched in World Bank aid practices, even if in a less visible manner. This subtle change may serve to contain the contradiction resulting from the conjunction of its discursive shifts, as though the post-Washington Consensus, and persistent of a set of neoliberal economic and financial imperatives at the heart of its practices (p.106).

In respect of the global financial crisis of 2007/08, Birch and Mykhnenko (2010) and Sheppard and Leitner (2010) conclude that perhaps it is still too early to gain a full understanding of its implications for the neoliberalism concept as part of the mainstream of the economic order.

3.4.2 Good governance

World Bank (1992) defines good governance as ‘the manner in which power is exercised in the management of a country’s economic and social resources for development’ (p.1). This definition is understood as a ‘narrow’ or ‘technological’ definition of governance because it only captures the ‘economic’ dimension of ‘governance’ (Doornbos, 2001; Welsh and Wood,

2007). More clearly, as Welsh and Woods (2007) explain, the World Bank (and also IMF) deliberately strives to avoid any political connotations⁴⁴ of the concept of good governance. For these institutions, good government is seen as a much narrower concept that focuses on creating certain conditions⁴⁵ under which ‘free market’ principle can work.⁴⁶

A good governance approach in development means that international donor agencies will provide funding only for a government which shows the capacity to ‘govern well’. This implies having qualities such as (1) a strong tradition of accountable government, (2) an effective bureaucracy, (3) stable and assured property rights, and (4) sound rule of law. These are all usually characteristics of institutions found in Western democratic countries. There is a great temptation among the development community to transplant these kinds of institutions to other countries, based on the belief that if ‘they have served rich and stable countries well – so, too, they could serve others’ (cf. Welsh and Woods, 2007, p.xii).

Critics of the good governance approach to development however, argue that it has become a framework which aims to create a ‘westernised’ world, one that is regulated by a universal standard or value system derived from the western capitalist model of development. Schmitz (1995) is an early example of this kind of work. Schmitz’s (1995) argument is supported by others from the literature (see for examples Demmers et al., 2004; Doornbos, 2001; Kiely, 1998; Taylor, 2004). Recent literature shows that Schmitz (1995) is still relevant. Lazarus (2013) for example, says ‘good governance and democracy promotion agendas are two interlinked elements of the hegemonic project of neo-liberal globalization’ (p.262, my emphasis). There are two ways to understand these critics: firstly, through understanding of

⁴⁴ Good governance can mean democracy that is to do with elections, political parties, parliaments or democratic accountability (Welsh and Woods, 2007, see p. xi).

⁴⁵ The conditions here refer to for example ‘the rule of law’, ‘the protection of property rights’, ‘competent bureaucracies’, ‘effective restraint of corruption’ (Welsh and Woods, 2007, p. xii).

⁴⁶ As discussed earlier, the ‘free market’ is one of core principles of neoliberalism (see Section 3.4.1).

how the good governance concept has been conceptualised by international donors and secondly, through understanding of how the concept emerged in the first place. The details of these are discussed further below.

By looking at the way ‘good governance’ is conceptualised, we can see the link with the principles of neoliberalism discussed earlier. Functioning of free markets is one of the core principles or characteristics of a neoliberal state. Welsh and Woods’ (2007) interpretation of the World Bank’s (1992) definition of ‘good governance’ suggests the alignment of the definition with the concept of neoliberalism. In addition, Welsh and Woods (2007) recognise that elements of the governance indicators used by the World Bank are actually vital elements for promoting and supporting markets, investment and economic growth. Sheppard and Leitner (2010, p.187), state that, ‘..., the turn to governance has been implemented in the form of international indices of good governance designed to reinforce market efficiency,’ which affirms Welsh and Woods (2007).

Another way of looking at the link between the two concepts is by assessing how and when the concept of ‘good governance’ emerged. First, as discussed earlier, East Asia has been given as an example of how the Washington Consensus can work and therefore other developing economies should follow the same principles (see discussion in point 3.4.1). However, in the late 1980s and early 1990s, structural adjustment programmes applied extensively in Latin American and African countries showed poor results. As Sheppard and Leitner (2010) note, cross countries which adopted structural adjustment programmes, “unemployment and impoverishment catalysed widespread localised protests in the late 1980s and early 1990s” (p. 186).

In responding to this in its report of 1989, the World Bank brought up the issue of ‘governance’, arguing that institutional change was needed for reforms to be effective. This implies that the

World Bank blamed the poor results of structural adjustment programmes in Africa on a 'crisis of governance' across the entire continent, rather than the policies prescribed by the reform package itself (see World Bank, 1989). In response, a number of authors comment that the issue of 'governance' raised by the World Bank to explain the poor results of structural adjustment programmes was an attempt to protect the neoliberal agenda (see Lazarus, 2013; Taylor, 2004; Demmers et al., 2004). Taylor (2004) for example, wrote:

Instead of questioning their own prescription, the IFIs [International Financial Institutions] instead sought to advance 'good governance' as a necessary precondition for neoliberal reforms to finally work. This in itself reflected the conviction amongst the institutions that neoliberalism was the only way forward, and that what was wrong, or had been going wrong, was not the ingredients of the adjustment programmes, but rather their implementation and wider institutional setting in the borrowing states (p.130).

In 1997/98, a huge financial crisis hit the Asian countries. At this time, the Washington Consensus came into question, as Jayasuriya and Rosser (2001, p. 382) express:

... the Asian economic crisis has also led to a serious ideological crisis in the West. Before the collapse there was a broad agreement among Western orthodox economies that developing countries should pursue a set of economic policies, often referred to as the 'Washington Consensus.

The orthodox economists tried to provide alternative explanations but were unable to achieve an agreement and the explanations tended to undermined the Washington Consensus (Jayasuriya and Rosser, 2001). They also note that while not being able to agree on the roots of the crisis in East Asia (whether the crisis resulted from too much state intervention or too little), orthodox economists have been able to agree that political and extra economic factors contributed to the crisis. The World Bank (1998, p. 16) offers a similar argument:

East Asia's crisis is best seen as a story of rapid growth built on incomplete foundations, which was left exposed to winds of the international capital markets. Now that the financial earthquake has occurred, it will have to rebuild its success on new foundations in its trade competitiveness, in the financial sector, and in the governance and financing of its corporate sectors.

The statement above implies that, for the World Bank, the cause of the crisis, if not directly linked, at least can be associated with poor governance (cf. Jayasuriya and Rosser, 2001).

Thus, in the views of the orthodox economists and the World Bank, “the crisis was as much as a result of institutional and ‘political’ failure of East Asian governments to fully implement the tenets of Washington Consensus” (cf. Jayasuriya and Rosser, 2001, p. 387). Hence, the World Bank (1998) implies that from their point of view, the Asian economic crisis demonstrated market failure worsened by an institutional inability to provide economic order. This implies that the World Bank is likely to place greater emphasis on extra-economic factors that are seen as essential to the stable functioning of the market system. A further implication is that, “the new policy thinking in multilateral agencies will endeavour to articulate a set of political underpinnings to support the market reforms championed by the Washington Consensus” (cf. Jayasuriya and Rosser, 2001, p. 387).

From the discussion above, it is clear that concept of ‘governance’ gained its momentum in the context of the East Asia economic crisis; the Washington Consensus was replaced by the Post-Washington Consensus with ‘governance’ as one of its key elements: “developing good governance is the most vital piece of the new policy jigsaw” in the Post-Washington Consensus (Jayasuriya and Rosser, 2001, p. 388). According to them, the difference between the Washington Consensus and the Post-Washington Consensus is that the Washington Consensus is about shrinking the state while the new consensus places a great store on getting the right institutional mix for functioning markets. Jayasuriya and Rosser (2001) seem to be consistent with Van Waeyenberge et al. (2011) who consider the move from the Washington Consensus to the Post-Washington Consensus to be just a shift to another form of neoliberalism, not a complete departure from it (as mentioned in the previous discussion (see Section 3.4.1)).

From the above explanations, it is clear that the concept of governance began to emerge in the late 1980s or early 1990s in connection with the poor results of structural adjustment programmes applied in Latin American and African countries. Then, in the late 1990s the concept became more important due to the Asian economic crisis in 1997/9 (Jayasuriya and Rosser, 2001). The popularity of the concept in the late 1990s also can be associated with another event that will be discussed below. This explains the increasing popularity of the governance concept in the late 1990s.

The second event which encouraged the concept of good governance to gain momentum, along with the emphasis on market-oriented policies, was the end of the Cold War in the early 1990s (Doornbos, 2001; Hout, 2007). Doornbos (2001) says that ‘good governance’ (which emerged as a conditionality attached to a funding decision) was fundamentally different from the type of conditionalities which existed during the Cold War era. During the Cold War, the relationship between donors and their clients was built up on the basis of ‘political’ agreement:

Political support for the West, or for the then so-called Eastern bloc, in the UN, in the field and in other fora, had been a key condition for material and other upkeep of the regimes concerned. (Doornbos, 2001, p.97)

Post-Cold War, however, the notion of new conditionalities was aimed at establishing

...a grip on recipient developing countries’ handling of policy processes, and on the basic manner in which government and its constituent political processes – multi-partyism or other – would be structured. National sovereignty and non-interference in internal affairs, for long held in high esteem in international politics, were met with increasing impatience. In World Bank circles at the time, there was an acute awareness that one was about to step into ‘sensitive’ matters... (Doornbos, 2001, p.97-98)

When the financial crisis struck East Asia in 1997/98, the ‘good governance’ concept gained currency as a contemporary development discourse. Jayasuriya and Rosser (2001) state that the crisis had a huge impact on the economy of the region: many Asian companies went bankrupt, interest rates were uncontrollable, and unemployment and inflation increased dramatically. Not only did the crisis impact on the economy but it also brought about the collapse of several

governments in the region (including Indonesia). Jayasuriya and Rosser (2001) argue that the Asian economic crisis led to a ‘serious ideological crisis in the West’:

Before the collapse there was broad agreement among the orthodox economists that developing economies should pursue a set of economic policies prescribed in the ‘Washington Consensus’... (p.382)

After the crisis, however, the Washington Consensus was called into question, as Jayasuriya and Rosser (2001) point out. The crisis resulted in greater attention being afforded by the development community to the concept of good governance.

By the turn of the new century, virtually all major bilateral and multilateral aid agencies had moved away from focusing purely on ‘economic development’ to a new emphasis on the promotion of ‘good governance’ (Welsh and Woods, 2007). However, the shift from Washington Consensus to post-Washington Consensus is a *new phase of neoliberalism*, as discussed earlier. The implication is that at the time the World Bank was shifting its development paradigm from the Washington Consensus to a good governance approach, neoliberalism was actually still the mainstream of the economic order (Van Waeyenberge et al., 2011).

3.4.3 Performance measurement, good governance and the notion of neoliberalism

As discussed above, the ECD concept shows a clear link between performance measurement, public sector reform and good governance (see 3.3.2). According to the concept, for the initiative to be effective performance measurement should be introduced into a broader context of good governance. Mimba et al. (2007) indicates that the ECD concept was put into practice by the international donor agencies; at the same time, the discussion above (3.4.2) shows there to be a link between good governance and neoliberalism. In essence, good governance complements or secures the neoliberal idea, and it is thus plausible to connect the interests of

international donors in performance measurement in developing economies to the notion of neoliberalism. Mackay (1998, p.3) for example, presents an indication of this link:

The potential for evaluation [performance measurement] can be understood from recognition that economic governance and a sound public sector reform are central to national economic competitiveness – markets reward countries able to manage and screen public expenditures, and evaluation offers a tool to help do that.

Key words to be noted from Mackay's (1998) statements are 'economic governance', 'a sound public sector reform', and 'economic competitiveness.' Mackay (1998) has linked public sector reforms to the economic competitiveness of a country. 'Economic governance' implies similar definition of good governance provided by the World Bank (1992) discussed earlier (see the first paragraph of point 3.4.2). 'Sound public sector reforms' can be interpreted as those supporting market efficiency, as Welsh and Woods (2007) argue and as discussed earlier. Mackay's (1998) statement thus confirms Welsh and Woods's (2007) argument that elements of governance introduced by the World Bank are vital to promote and support markets, investments and economic growth. This argument is supported by the statement of the Director General of the World Bank Operations Evaluation Department: 'the development consensus favors growth-oriented, market-friendly development' (Picciotto, 2002, p. 9)

3.5 Conclusion

I have developed further the conceptual framework established in Chapter 2 by elaborating the elements of the framework and the contextual factors of the public sector in the developing economies. The discussions in this chapter indicate that factors influencing the design, implementation and use of performance measurement systems in the context of developing economies are much more complex compared to those in the context of developed economies. The complexity stems from a) the on-going reforms, b) specific characteristics of the public

sector in this context, and c) the involvement of external stakeholders (i.e., international donor agencies).

In terms of its history, performance measurement in developing economies has its root in the context of development. This is very different from performance measurement in developed economies which from its introduction was driven by the motivation to transplant efficiency techniques to improve the performance of the public sector. In developing economies, performance measurement was introduced by international donor agencies in relation to development aid. Performance measurement in developing economies can thus be examined in the context of development discourse. By tracing the evolution of donor efforts in mainstreaming performance measurement in developing economies, it is plausible to relate it to the notion of neoliberalism (the development paradigm adopted by the World Bank), even after the World Bank shifted this paradigm to embrace the concept of good governance. This assumption is based on the argument that the good governance concept can be seen as complementing rather than replacing neoliberalism. In terms of the challenges facing performance measurement in developing economies, the specific characteristics of the public sector in this context exert an influence on the contingency factors defined in Chapter 2. An exploration of these characteristics and to what extent they have a role to play will provide a contribution to the performance measurement literature in developing economies.

CHAPTER 4

METHODOLOGY

4.1 Introduction

As discussed in chapter 2, the concept of ‘performance’ is complex and multidimensional; measuring performance involves complex processes and elements. Performance measurement systems are influenced by the environments or institutional contexts within which they are being implemented. Accordingly, Van Helden and Reichard (2013) asserts research on performance measurement needs to be more explicit in assessing the influence of institutional context. As understanding context is an integral part of understanding performance measurement systems. It is thus important to select the most appropriate research methodology to capture the influence of the context in which the new performance measurement system is being applied in Indonesia.

This chapter introduces the methodology used in this research. This study adopts qualitative research to understand the Indonesian new measurement system, as the most appropriate to capture the complexity surrounding the Indonesian new measurement system and the richness of context in which it is being practiced. More specifically, I use case study research to address the research questions posed by this study. The case study method allows in-depth investigation of the Indonesian new measurement system using a range of data collection methods. Case study research, however, has less developed procedures than other research methods. Therefore a complex iterative process is common in conducting case study research, (Scapens, 1990), as I also experienced in this study.

This chapter starts with discussion of the philosophical perspective of research in the social sciences. This first section covers the differences between positivistic and interpretive approaches, the research approach of the current research and research questions. The next section focuses on the research design. This discusses the use of case study, the role of theories, the steps of the case study, data collection methods and data analysis. The discussion then moves on to criteria for research evaluation consisting of procedural reliability, contextual validity and transferability of findings and finally presents the conclusions.

4.2 Philosophical Perspective

The distinction in social sciences can be made between the parallel streams of positivistic and interpretive research. Both types of research are fundamentally different in terms of their ontological, epistemological and methodological positions. The ontological position relates to the researcher's view of 'the very nature and essence of things in the social world' (Mason, 2002, p. 14) or 'the assumptions which the researcher holds regarding the nature of the phenomenon's reality' (Ryan et al., 2002, p. 35). The ontological perspective determines the appropriate epistemological perspective to be used (Chua, 1986; Mason, 2002; Ryan et al., 2002). Epistemology is 'the philosophy of knowledge or of how we come to know' (Trochim, 2006). In other words, the epistemological perspective is concerned with what is to be included as evidence of a study (Mason, 2002, p. 14). It defines the model of explanation (i.e. whether the research is to take a positivistic or interpretive approach).

4.2.1 Positivistic Approach

Researchers adopting a positivistic approach assume that the researcher and the studied phenomenon are independent of each other (Robson, 2002; Weber, 2004). Departing from this ontological assumption, positivists believe that an objective reality exists beyond the human

mind which reflect their epistemological position (Weber, 2004). Moreover, positivists assume that the objects being researched have qualities that exist independent of the researcher. Therefore, researchers taking a positivistic approach believe that ‘a statement made by a researcher is true when it has a one-to-one- mapping to the reality that exists beyond the human mind’ (Weber, 2004, p, vii). This belief relates to the view that science is the way to understand the world (Trochim, 2006) which implies that discovering knowledge uses observation and deductive reasoning (Robson, 2002). More specifically, dependent and independent variables are predefined and the reality is therefore described through the measurement of both variables (Myers, 1997). Positivistic researchers therefore seek out large amounts of empirical data which can be analysed statistically to look for pattern or trend.

4.2.2 Interpretive Approach

An interpretive research considers that the phenomenon in the world and the researcher who studies the phenomenon are interrelated (Rowlands, 2005; Weber, 2004). Interpretivists recognise that ‘the knowledge they build reflects their particular goals, culture, experience, history...’ (Weber, 2004, p.vi). Different researchers thus could have a different understanding of same phenomenon or the same phenomenon could present different meanings to the same researcher at different moments (Hammersley and Atkinson, 2007). That is why the researchers themselves in effect become measurement instruments as ‘the researchers interpret (measure) the phenomena they observe’ (Weber, 2004, p. vii). When inconsistency is found between the researcher’s pre-understanding and their lived experience of the phenomenon, interpretivists refine their interpretation iteratively until it matches with their lived experience.

An interpretive study does not define dependent and independent variables (Rowlands, 2005); the study is not aimed to test a theory and to predict phenomenon but to understand a social phenomenon, which is socially constructed in specific circumstances (Hopper and Powell,

1985; Scapens, 1990). In other words, an interpretive research aims to understand the social contexts of phenomenon and to know how these contexts influence and are influenced by the phenomenon (Walsham, 1995). Interpretivists use inductive reasoning that helps to gain deeper understanding of structure of a phenomenon through language, consciousness and shared meaning (Klein and Myers, 1999; Rowlands, 2005).

4.2.3 Research Approach of the Study

The previous point discussed philosophical perspectives in doing research in social science. The objective of discussing the perspectives is mainly to locate (to understand) the stand point of the current research because I shifted the research perspective at one point during the course of the research (see Figure 4.1). Initially, the design of this study was informed by Propper and Wilson (2003) and Cavaluzzo and Ittner (2004). These two papers were tied to Mimba et al. (2007) in order to capture the influence of the specific context of developing economies. The research questions formulated require the use of mixed method approach, combining positivistic and interpretive approaches. More specifically, I planned to use large scale survey questionnaire and case study at several selected districts/municipalities. The preliminary findings of this study, however, indicated that mixed method approach was likely to be not effective. The change in circumstances encountered in the field was discussed with my supervisor and he agreed that the research design should be modified.

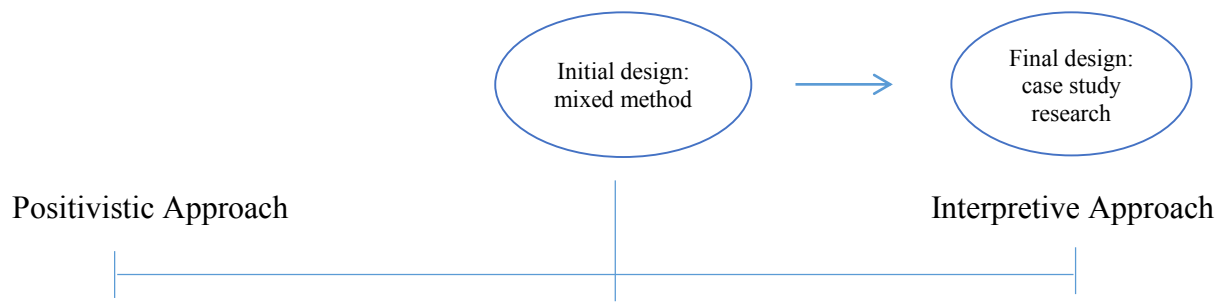


Figure 4.1 Research Approach
Source: Author

The decision to shift the research approach from mixed method to an interpretive approach was consistent with Scapens's (1990; 2004) and Ryan et al.'s (2002) argument: interpretive research helps researchers to understand management accounting practices in context: to capture the richness of the context where a management accounting technique is being practiced. Some early studies such as Burrell and Morgan (1979), Jönsson and Macintosh (1997) and Tomkins and Groves (1983) have debated the appropriateness of the positivist and interpretive approaches in management accounting research. According to Scapens (1990), positive management accounting research is primarily based on neoclassical economic theory, which was developed to predict general patterns of economic behaviour and which has been used to provide a basis for management decision models. Management accounting research drawn from positivism relies on quantitative measurements and statistical methods (Berry and Otley, 2004; Scapens, 1990).

Chua (1986) and Scapens (1990), however, argue that the positivistic research approach using neoclassical economics is limited when it comes to explaining the process through which accounting systems evolve in particular organisations. As some management accounting researchers believe (see for examples Ahrens and Chapman, 2006; Chua, 1986; Scapens, 1990), management accounting practices are better understood through interpretive research. According to Scapens (1990), management accounting practices are socially constructed; thus

they may change as a result of the interaction of social agents. Therefore, looking for a universal law and generalisation in order to arrive at a logical theory is likely to be ineffective. For this reason, the interpretive approach is increasingly adopted in management accounting research. As discussed, the interpretive approach allows researchers to discover and capture the meanings of social behaviours, which are developed by humans from what they encounter in everyday life.

The current study examines a social phenomenon which in nature is a complex system. More specifically, it aims to understand the new performance measurement system applied in Indonesia since 2008 with its different elements and how the different elements fit together. The new measurement deals with Indonesia's decentralisation policy which means that the measurement system will be a concern of stakeholders at different tiers of government (i.e. national, regional and local government). Moreover, the decentralisation policy also covers the entire government's functions, except for five areas where control is retained by central government (foreign policy, defence and security, fiscal and monetary policy, judiciary, and religious affairs). The new measurement system thus deals with government services ranging from education, health, public works, and the environment to tourism and library services (in total 26 obligatory and 8 optional functions). Taking an interpretive approach enables a better understanding of this complex measurement system within the specificity of the Indonesian context.

4.2.4 Research Questions

The change in the research approach required research questions to be re-formulated. The refined research question posed for the purposes of this study are:

- 1) Why was this new performance measurement system established in Indonesia and how?

- 2) What system design does the new performance measurement system in Indonesia follow? Why was it designed in the way it is and how effectively has the system been designed?
- 3) How effectively has the new performance measurement system been implemented?
- 4) Is there any evidence of use of the information produced from this new performance measurement system? If there is any evidence, how has the information been used? If there is no evidence, why has the information not been used?
- 5) Which factors influence the design, implementation and use of the new performance measurement system in Indonesia? How do the complex interactions between technical, organisational and institutional factors work to influence this design, implementation and use?

The first research question (RQ1) was derived from both functionalist and non-functionalist perspectives in viewing performance measurement systems. Rational or functional perspectives assume that the adoption of performance measurement systems is driven by the motivation to achieve improved performance in terms of efficiency and effectiveness. On the other hand, from the perspectives of institutionalists, the adoption of performance measurement systems is not necessarily linked to efficiency and effectiveness. It can serve other purposes such as political reasons or gaining legitimacy as discussed in point 2.4.2

The new performance measurement system being applied in Indonesia (i.e. EKPPD) may have been developed because of the objective to help local government in Indonesia to improve the quantity and quality of public service delivery for local people (i.e. improve performance in terms of efficiency and effectiveness). The development of the system might also have political reasons behind it that need to be investigated (institutional perspective). Referring to the

discussion in chapter 3, in particular to the work of Mimba et al. (2007) and the arguments of Bouckaert and Halligan (2008) and Pollit (2001), it is very likely that the development of this new measurement system has also been influenced by international donor agencies, but which donor organisations played roles and how they did it remains unclear. Thus, addressing this first research question will clarify whether the development of the new performance measurement systems applied in Indonesia contain both rational and institutional explanations or only one, and will clarify the role of international donor agencies in the case of this new measurement system.

The second research question (RQ2) was inspired by Williams (2004), who discusses the evolution of performance measurement systems in the context of developed economies (i.e. the US) prior to and after the 1930s. There has been no kind of study like this in the context of developing economies; generally speaking, research on public sector performance measurement in the context of developing economies is still under-developed (Mimba et al., 2007) and specifically for the Indonesian context, there is still scarce literature on performance measurement (Akbar et al., 2012). Therefore, there is still little knowledge in terms of what type of performance measurement systems are operating in this context. Addressing the first part of RQ2 will help to fill in the gap in the literature.

The second part of the research question was inspired by the discussion in the literature review chapter about the steps of the design phase. It was mentioned that the second step is about ‘developing a conceptual framework’ as a foundation for measures to be developed. The measurement framework usually links to the strategic objectives and in most countries, this is defined by the constitution (Buschor, 2013). Addressing the second part of RQ2 will inform on the measurement framework underlying the EKPPD system. Answering this second part of RQ2 may lead to an understanding of the stakeholders involved in this system and how their

conflicts of interest have influenced the system design such as selection of measures or other aspects of the system.

The last part of RQ2 asks about the appropriateness of measurement techniques adopted in the EKPPD system with the specificity of the Indonesian context. It asks whether this has problems, and if so, what they are and how they are connected to the implementation process. The underlying theoretical framework for this third question is that the distinct nature of the public sector in general brings challenges for measuring performance in the public sector, as discussed in chapter 2. The public sector in developing economies also has some specific characteristics (see chapter 3). Advanced techniques of performance measurement systems will not be suitable. Addressing this final part of RQ2 will help to assess the interdependency between design, implementation and use.

The third research question deals with the status of the ongoing implementation of the Indonesian new measurement system. It asks whether it faces problems, and if so, what these are and how they have hampered the implementation process. The underlying theoretical framework for this third question is that the distinct nature of the public sector in general brings challenges for measuring performance in the public sector, as discussed in Chapter 2. The public sector in developing economies also has some specific characteristics (see chapter 3). These are expected to magnify the challenges of performance measurement in the context of a developing economy.

The fourth research question was drawn from both functional and institutional approaches in researching public sector performance measurement systems. The answer to this question will depend on the answer to RQ1. If the development of the system was merely driven by non-functional explanations, then we can expect symbolic use. However, if there was an element of rational consideration, then we can investigate whether the information has been used as

intended or not. If the system has not been used, what were the reasons? From a functionalist perspective, information is not used because lack of validity and reliability.

Finally, the last research question (RQ5) was formulated based on the conceptual framework developed in chapters 2 and 3 which define contingency factors into three broad categories: technical, organisational and institutional factors. Table 3.1 summarises the factors in each category that have been elaborated with the contextual factors of the public sector in the developing economies. Thus, RQ5 aims to investigate which factors that are applied to the case of the new Indonesian measurement system under study. Are all of the factors applicable? Perhaps other factors will emerge from the specificity of the Indonesian context.

The second part of the RQ5 was inspired by the argument of Cavaluzzo and Ittner (2004) who state that contingency factors will have complex, non-linear interactive effects on performance measurement systems. The complexity is likely to be higher in the case of this new performance measurement because of characteristics such as high level of corruption and informal practices, as identified by Mimba et al. (2007). In the discussion of Section 3.2.3, I develop some predictions on how different factors can intermingle with each other. For example, the influence of corruption will work through internal stakeholders' support/commitment for performance measurement initiatives. However, how complex the interaction could be still needs further investigation. Addressing the second half of the RQ5 is expected to improve our understanding on this issue and may raise some interesting new findings that have not yet been discussed in the existing literature.

To summarise, addressing these five questions will provide a deep understanding of the new measurement system as it is applied in Indonesia. In a broader context, an understanding of the Indonesian performance management system will inevitably help to generate new knowledge on the implementation of performance measurement systems in developing economies.

4.3 Research Design

Research design reflects the way research is carried out. Put simply, it addresses how to plan a research project (Flick, 2006; 2009). A comprehensive definition is provided by Ragin (1994): ‘research design is a plan for collecting and analysing evidence that will make it possible for the investigator to answer whatever questions he or she has posed.’ The research design ‘touches almost all aspects of the research, from the minute details of data collection to the selection of the techniques of data analysis.’ Research design thus needs to reflect (1) how data collection is to be set up and analysed, and (2) how empirical “material” (situations, cases etc.) should be selected. Research questions can thus be addressed satisfactorily using the available means, taking into consideration the constraints of time and resources (cf. Ragin, 1994, p. 191). As discussed earlier, the research design was modified from mixed method approach to case study research.

A specific definition of case study research itself is provided in Yin (2014), pp.16-17:

- A case study is an empirical enquiry which
 1. investigates a contemporary phenomenon (the “case”) in depth and within its real-world context, especially when
 2. the boundaries between phenomenon and context may not be clearly evident.
- A case study enquiry
 - copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result
 - relies on multiple sources of evidence, with data needing to converge in a triangulation fashion, and as another result
 - benefits from the prior development of theoretical prepositions to guide data collection and analysis.

Essentially, the first part of this definition represents the scope of a case study and the second part implies its features.

The new design of the research also caused the change in the definition of the ‘case’ under studied. In the initial design of this study, a ‘case’ was a district or a municipality whereas in the new design, the ‘case’ is ‘the performance measurement system.’ To be clear, the case presented in this research is on the performance measurement system applied in Indonesia. I look at the operation of the system, various elements within the system and how those elements fit together. The new design of this study was consistent with Van Helden et al.’s (2008) findings which show the distinctive pattern of research into performance measurement and common research methods used. The finding of the study shows that researchers from an accounting background tend to study performance measurement using the case study method (in contrast to, say, those from a public administration discipline, who often use survey research). Table 4.1 shows the link between the refined research questions, data sources and methods and justification for each data collection method identified.

Research questions	Data sources and methods	Justification
RQ1. Why was the new measurement system established in Indonesia and how?	<ul style="list-style-type: none"> Actors involved in the development process of the new measurement system : interviews Also possibly: Relevant reports and publications related to the development of the new measurement system: documentary analysis 	<p>Interviews with actors involved in the development stage of the new measurement system provide information about why the Government of Indonesia was interested in developing the new measurement system and the process or steps undertaken from the beginning to the drafting of the regulation on the new measurement system.</p> <p>Documentary analysis (of relevant reports and publications) provides information that might be not revealed through interviews with actors involved in the development. Also helps to clarify details such as dates or chronology of events involved in the process of development.</p>
RQ2. What system design does the new performance measurement system in Indonesia follow? Why was it designed in the way it is and how effectively has the system been designed?	All related regulations and manuals of the new measurement system: documentary analysis	Analysing relevant regulations and manuals of the new measurement system will provide information concerning system design of the new measurement system (such as what aspects to measure and how to measure).
RQ3. How effectively has the new measurement system been implemented in Indonesia?	<ul style="list-style-type: none"> Actors involved in the new measurement system implementation process: interviews and survey Also possibly: Relevant reports, and publications: documentary analysis Field visit: direct observation 	<ul style="list-style-type: none"> Interviews with actors involved in the implementation process of the new measurement system provide information related to: <ul style="list-style-type: none"> status of the current implementation problems encountered from first year of implementation until now any solutions which might have been found evidence of any dysfunctional effects emerging since implementation Survey of actors involved in the new measurement system implementation process might also provide same information as listed above Documentary analysis of relevant reports may also indicate all issues mentioned in the previous two points Direct observation will help understand the context/environment in which the new measurement system is being practiced
RQ4. Is there any evidence of use of the information produced from this new performance measurement system? If there is any evidence, how has the information been used? If there is no evidence, why has the information not been used?	Users of information produced from the new measurement system: interviews	Interviews with users of information produced by the new measurement system will reveal how this information has been used. If information has not been used, what are the reasons for this?
RQ5. Which factors influence the design, implementation and use of the new performance measurement system in Indonesia? How do the complex interactions between technical, organisational and institutional factors work to influence this design, implementation and use?	a. Actors involved in the new measurement system implementation process: interviews and survey Also possibly: <ul style="list-style-type: none"> Relevant reports, and publications: documentary analysis Field visit: direct observation 	Addressing the first four questions will help to address the fifth research question.

Table 4.1 Linking Research Questions and Possible Data Collection Methods
Source: Developed by author, adapted from Mason (2002) and Scapens (2004)

4.3.1 The Use of Case Study

Case study research can address a number of different objectives: to obtain a description of the phenomenon being studied, theory testing, and theory building through modification or extension of the existing theories (see Scapens, 1990; Berry and Otley, 2004). In accounting research (especially in management accounting), case studies offer ‘the possibility of understanding the nature of management accounting in practice; both in terms of the techniques, procedures, systems, etc. which are used and the way in which they are used’ (Scapens, 1990, p. 264). This type of case study falls into the category of interpretive case study research (Ryan et al., 2002; Scapens, 2004), a method which is derived from the interpretive research approach.

As already mentioned, the objectives of this study are to understand the new measurement system in Indonesia, the different elements involved in it, and how these elements fit together. Moreover, from the discussion in chapters 2 and 3 it has been understood that context influences performance measurement significantly. The challenge of measuring performance in the public sector relates to the fact that here its nature differs from that of the private sector (from where the idea of performance measurement was transplanted). Moving from developed economies to developing economies also brings different (and probably higher) challenges for performance measurement because of the specific characteristics of the latter context. Understanding context is thus crucial to the study of performance measurement, and again, here the use of an interpretive case study is appropriate. Overall, the objectives of this study and its nature are thus consistent with the characteristics of interpretive research, again making the adoption of interpretive case study appropriate.

4.3.2 The Role of Theories

Ryan et al. (2002) and Scapens (2004) underline that the use of the case study method in interpretive research should be for explanatory purposes. Explanatory case studies are those which attempt to explain the reasons for observed accounting practices. Even an exploratory case study will include some elements of explanation. More specifically, the nature of the interpretive case study is described as follows:

Theory is used in order to understand and explain the specific, rather than to produce generalisations. The theory is useful if it enables the researcher to provide convincing explanations of the observed practices. If available theories do not provide such explanations, it will be necessary to modify existing theory or to develop new theory, which can then be used in other case studies. The objective of the research is to generate theories which provide good explanations of the case (Ryan et al., 2002, p.144).

Moreover, Ryan et al. (2002) explain that in interpretive case study the researcher comes to the field with existing knowledge and theories⁴⁷. There is thus two-way interaction between theory and observation; theories are used to explain empirical observations which in turn modify theory. The theories which support the findings are maintained and the ones which do not are changed. This implies a 'logic of replication and extension, rather than sampling logic' (Ryan et al., 2002, p. 149).

I went into the field with a conceptual framework which categorised factors that might influence the design, implementation and use into three classifications: technical, organisational and institutional factors. Investigation at the national level indicated that the preliminary findings supported the framework. Many technical and organisational issues hampered the implementation process, such as unavailability of data, low reliability of data used by local government to fill in KPIs, low capacity in terms of human resources to handle

⁴⁷ This can be in form of a conceptual framework. If a specific conceptual framework has not been developed at this stage, at least there should be a framework at a general level.

the implementation, and unavailability of financial resources to support the implementation. These findings clearly support the rational arguments.

Moving towards the investigations at the regional and the local levels, the rational explanations were still useful to understand implementation barriers such as how the system design did not fit with the specificity of the Indonesian context. For example, the design of the system was considerably much more advanced compared to the capacity of local government to report performance according to this new system. Then, the selected indicators were considerably problematic for stakeholders at local government level (e.g. the use of minimum service standard for some local government was not really relevant for them, but for others the standards were too high).

The findings related to the implementation problems faced by the regional government tended to support the rational or functional arguments: the design of performance measurement systems should fit with the context where the system is being implemented. The investigation at local level also showed evidence that supported institutional arguments such as the effects of corruption, informal practices and the local democratic system of direct election.

In relation to the driving forces that finally led to the development of the new measurement system, the findings of the study seemed to be better explained through the thesis of institutional isomorphism (DiMaggio and Powel, 1983). There was evidence for a strong involvement of international donor agencies such as the World Bank, Canadian International Development Agency (CIDA) and Asian Development Bank (ADB). The findings also suggested the presence of a complex conflict of interest among different stakeholders (e.g. between MoHA and sector ministries), between the national government and local elected leaders, and between internal stakeholders and international development agencies, the World Bank in particular. Institutional theory, however, could not explain the interest of international

donor agencies in supporting the development of the new performance measurement in Indonesia. Therefore, I borrowed insights from theory in other fields (e.g. political economic theory).

To summarise, some findings can be explained through rational arguments but other findings will be better understood using institutional theory (New Institutional Sociology), in particular DiMaggio and Powel (1983). As indicated earlier, the conceptual framework developed, since the beginning has drawn insights from both rational and institutional approaches in researching public sector performance measurement systems. The weakness of my literature review, however, was that I did not include a discussion about institutional theory. Therefore, I had to bring the discussion of institutional theory into the literature review. The conceptual framework was maintained but the complex conflict of interest among different stakeholders will be analysed using the work of Tillema et al. (2010).

4.3.3 The steps of the case study

In conducting this case study, I followed the main steps suggested by Scapens (1990; 2004)⁴⁸. However, due to circumstances encountered during the course of the study, the process could not follow the exact sequence recommended by Scapens (1990) which acknowledges that the iterative process is very common during case study research: ‘in the course of a case study, the researcher may have to iterate through these steps many times, possibly in different orders and with different interactions between individual steps’ (p. 273).

Important preparations for case study research include a) reviewing the relevant literature, and b) gaining access to the case. Reviewing the relevant literature is essential as no one can approach a case with a complete lack of knowledge about it (Scapens, 2004). To begin the

⁴⁸ The main steps include: (1) preparation (2) collecting evidence (3) assessing evidence and (4) identifying and explaining patterns (see Scapens, 1990, pp. 274-276; 2004, 265-275).

process, the permission letter to conduct research was obtained from a directorate under the Indonesian Ministry of Home Affairs (MoHA) known as *Kesbangpollinmas* (Nation Unity, Society and Politic). I received this letter on 7 December 2011, before interviews with key informants in national government took place. Applying for permission to conduct this research required the submission of several documents: a formal letter from the university, a research proposal and a recommendation letter from the authority where the researcher resides in Indonesia). The same procedure was followed to obtain permission to collect data at regional and local government levels. For regional government, the permission letter was obtained from governors and for local government from district heads/mayors. To make this easier, a permission letter was first obtained from national government and a recommendation letter issued by Directorate of Regional Autonomy at the MoHA. The fieldwork was divided into three broad stages (see Figure 4.2).

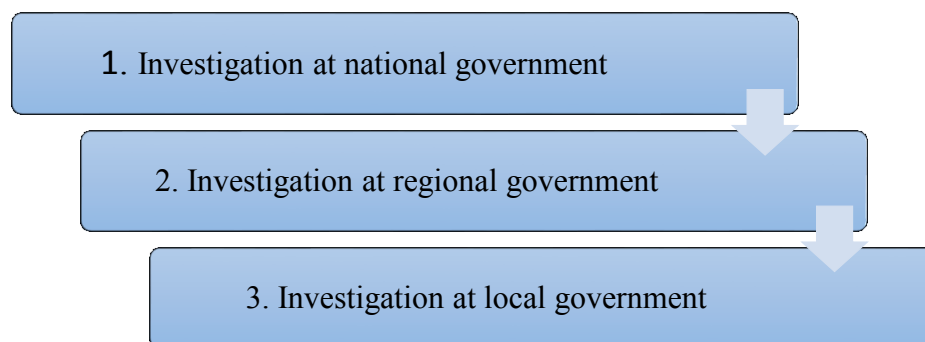


Figure 4.2 Stages of Fieldwork
Source: Developed by author, based on the fieldwork

4.3.4 Data collection methods

Sources of evidence used in this study are semi-structured interviews, direct observations, documents and questionnaires. Further discussion of these is provided below.

Semi-structured interviews

Interview is one of the most important sources of case study information (Yin, 2009). There are different types of interviews; the type used in this study was semi-structured⁴⁹. Mason (2002, p. 62) notes some characteristics of a semi structured interview, including ‘interactional exchange of dialogue’ and that ‘the relevant contexts are brought into focus so that situated knowledge can be produced.’ Generating data from a semi-structured interview is aimed at obtaining a depth and roundedness of understanding of the case under study. This justification is consistent with one of Mason’s (2002) nine recommendations for conducting a semi-structured interview.

The approach to establish interviews can be explained as follows. First of all, as the research focused on the design, implementation and use of the EKPPD as the new performance measurement system under study, I planned to interview actors involved in the design, implementation and use. An actor might be involved only in one phase such as design or implementation, but some actors could be involved in both. There would be a possibility for certain positions to be involved in both implementation and use. In general, the plan was to interview:

- (1) Actors involved in the design stage or with knowledge about the design process
- (2) Actors involved in the implementation phase
- (3) Actors involved in the use phase

For the first group, I expected to interview key actors involved in the design phase such as the chair of the design team. However, at this stage, I did not know who the chair was. There was also no knowledge about who was involved in the design phase apart from one person (an

⁴⁹ Also termed as a qualitative interview in Mason (2002).

expert who helped with the design). Contact with this expert was obtained through my supervisor. I expected that this first contact would lead me to other key actors that I should include in the interview. I hoped to interview at least five or six actors who were directly involved in the design phase.

The second group of actors was easier to identify than the first group, because they are defined clearly in the regulations and manuals of the EKPPD. A letter circulated by the Ministry of Home Affairs, for instance, clearly mention ministries and government bodies that should be involved as the national team (i.e. six ministries and four government bodies, chaired by the Minister of Home Affairs), who should be included in the regional team (i.e. minimum element from governors' offices, development and financial supervisory bodies and regional inspectorates, chaired by the governor) and local teams (i.e. elements within local government, chaired by the local government general secretary). Thus, I made a list of positions to be interviewed in relation to the implementation phase according to the positions mentioned in the relevant regulations and manuals mentioned earlier.

As Indonesia is a huge archipelagic country⁵⁰ consisting of 33 provinces and around 500 local governments, it was not feasible for the PhD research to cover the whole country. Broadly, Indonesia is divided into three main parts: west, middle and east. The west part includes Sumatra, Java and Bali, the middle part covers Borneo, and the east part includes Celebes, the Moluccas Islands, and Papua, as can be seen from the map below.

⁵⁰ Extending 5,120 kilometres from east to west and 1,760 kilometres from north to south. It encompasses 13,667 islands, only 6,000 of which are inhabited. Five main islands are Sumatra, Java, Kalimantan, Sulawesi, and Irian Jaya, two major archipelagos (Nusa Tenggara and the Maluku Islands), and sixty smaller archipelagos. Indonesia's total land area is 1,919,317 square kilometres. (<http://countrystudies.us/indonesia/28.htm>)



Figure 4.3 Indonesian Map
Source: University Texas Library (2014)

I intended to include three provinces representing these three main parts of the country mentioned earlier, one province from each of the west, middle and east parts. Then, within each province, I planned to pick up two local governments (giving six in total). To capture the influence of local government type, one of each pair should be a municipality (urban area) and the other a district (rural area). To allow comparison between the two different types of local government, the choice of districts and municipality should be comparable in terms of size. The easiest proxy of size in this case was the number of sub-districts in each municipality and district. The justification was that the higher the number of sub-districts, the heavier the workload of performance reporting, as more data would be processed.⁵¹

I intended to conduct 5-6 interviews with actors involved in the EKPPD implementation at regional level (there would be 15-18 interviews for three provinces). At the local government

⁵¹ The organisational structure of local government will be considerably similar, in that each local government must have a finance office, local planning and development body and other units directly in charge of delivering public services such as education, health, public works, etc. However, the number of sub-districts that a district or municipality has will indicate its scale, as it is related to its geographical area and population.

level, I also hoped to get 5-6 interviews (30-36 interviews for six local governments). Finally, for use stage, I only expected to interview local policy makers (i.e. the head of districts/mayors). I assumed that it would be difficult to interview stakeholders involved in use stage at the national level as they should be at very high level positions such as ministries that I did not have access to them. The expected scale and scope of the interviews are summarised in table below:

Investigation level	Expected Interviews		
National level			5-6 Interviews
Regional and Local Levels			
(1) Province representing West part		5-6 Interviews	
- Regional Team of the selected Province			
- Local Team of the selected municipality	5-6 Interviews		
- Local Team of selected district	5-6 Interviews		
(2) Province representing Middle part		5-6 Interviews	
- Regional Team of the selected Province			
- Local Team of selected municipality	5-6 Interviews		
- Local Team of selected district	5-6 Interviews		
(3) Province representing East part		5-6 Interviews	
- Regional Team of the selected Province			
- Local Team of selected municipality	5-6 Interviews		
- Local Team of selected district	5-6 Interviews		
Expected interviews at local level	30-36 Interviews		
Expected interviews at regional level		15-18 Interviews	
Expected interviews at the national level			5-6 Interviews
Expected interviews in total	50-60 Interviews		

Table 4.2 Expected Scope of Interviews

Source: Developed by author

As presented in Table 4.2, the expected scope of interviews was between 50-60 interviews that would be undertaken at three different levels: national, regional and local government, involving three provinces and six local governments.

Interviews with key informants at the national level were established through the help of two contact persons. My first contact person,⁵² who also became my first informant, was involved in the design process and recommended other names that I should include in the interviews in

⁵² As indicated earlier, contact with the first informant was obtained through my supervisor.

order to get information about the design, and provided their contact details. Two further interviews took place based on the first informant's recommendations.⁵³ My second contact was a high level official at MoHA but he was not directly involved in the EKPPD design or implementation.⁵⁴ This second contact introduced me to one key official involved in the ongoing EKPPD implementation, one potential user of the information produced from the new performance measurement system and another who had relevant knowledge about the measurement system.

The initial analysis of the interviews showed that implementation problems to some extent have a connection to the inconsistency between two connecting regulations: regulation on how local government performance should be evaluated and regulation on how local governments should report their performance as part of the accountability mechanism to the national government. Based on this information, I decided to interview the key actor in designing the regulation on reporting. An attempt was made to arrange an interview with the Minister of Home Affairs and another high official at MoHA but it was not successful due to the very busy period (the end of fiscal year). Thus, the overall process of interview establishment is described below:

⁵³ The third person recommended by the first informant did not respond to the email I sent him.

⁵⁴ I got access to him through my personal network.

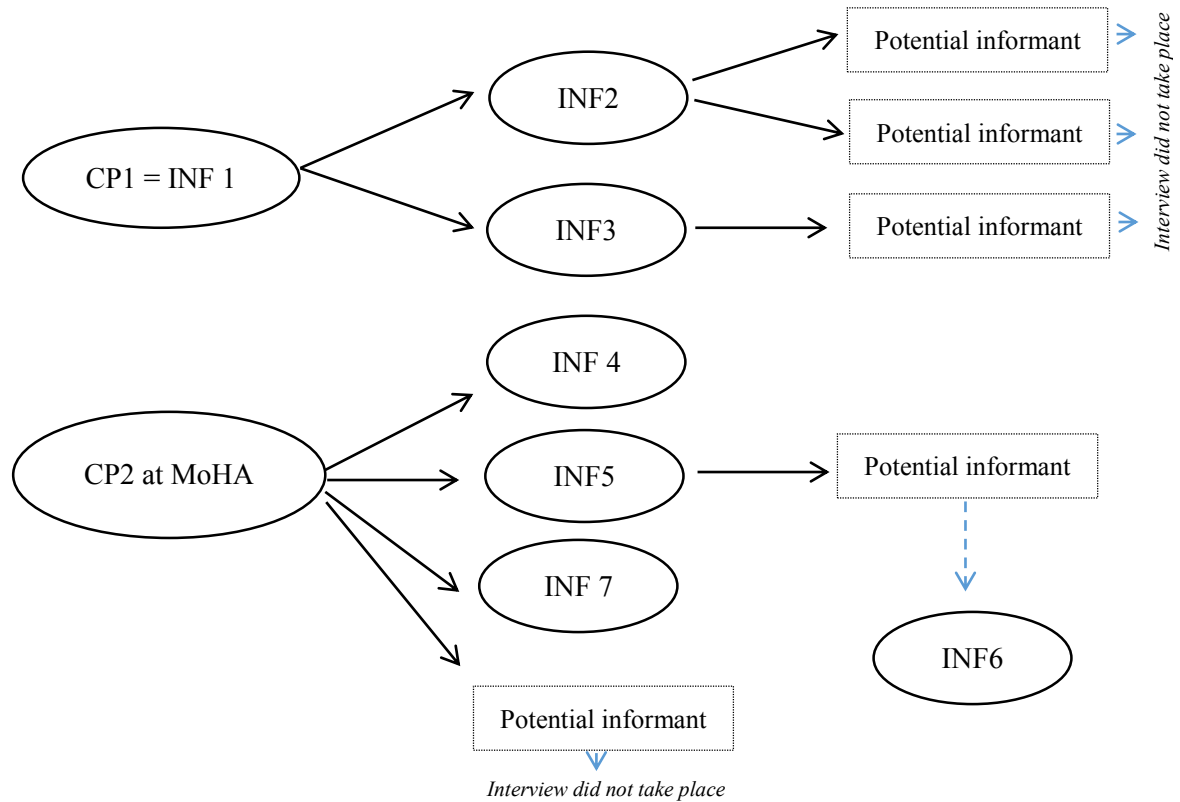


Figure 4.4 Process of Establishing Interviews
Source: Developed by author

As can be seen from Figure 4.4 above, four potential interviews could not take place because of the conflict of schedules as indicated earlier. Meanwhile, one potential informant delegated the interview to his subordinate on the day of the interview, also because of a conflict schedule.

The approach used to establish interviews at the regional and local government levels varied depending on the circumstances. In province A, I started the interviews at the selected municipality while I was still waiting for the responses for the letters I sent to the selected district and the regional government of the province. My contact at the selected municipality in this province helped to arrange interviews with a senior official directly in charge of implementing the EKPPD in this municipality and a key staff member who was very knowledgeable about reporting performance for the purpose of the EKPPD. The key official in charge of the EKPPD introduced another official and included her in the interview. As I did

not hear from the selected district and regional government in Province A, I decided to move on to the next province (Province B).

The decision to conduct interviews in province B was based on the recommendation of two key informants in the national government. According to them, Province B was among the good implementers of the EKPPD system. I received a quick response from the regional government of this province because I managed to find a contact person at the governor's office.⁵⁵ The contact person introduced me to several officials directly involved in the EKPPD implementation at the regional level. One of the key informants then introduced me to the key appointment holder at the selected municipality in this province. An interview with a senior official at the municipality was also arranged by the contact person in this province, but I obtained the third interview through the formal procedure (I came to his office, introduced him to the research I did and what information I needed from him. As I had a permission letter from the mayor to conduct research in the municipality, he responded well and the interview took place). I did not manage to obtain access to the selected district in Province B, therefore, I moved on to the next province (Province C).

In Province C, I started interviews at the local level. I used various approaches to establish interviews in order to obtain as many interviews as possible (that included relevant stakeholders in connection to the EKPPD implementation). In general, after obtaining permission letters to conduct research in the respective districts/municipalities, I went to the department in charge of EKPPD implementation at the district/municipality secretariat and explained to the head of department or the lower division that directly handled the performance reporting for EKPPD purposes. The majority of officials I met agreed for the interviews to take place immediately.

⁵⁵ This contact person was obtained through my IFP network.

From the interview with the majority of officials, I could determine who I should interview next, as the interview with the key informant would provide insights into how processes of reporting performance for the purpose of the EKPPD were carried out in their districts/municipalities. For example, I might have to interview staff in charge of supplying data at the working unit level.⁵⁶ If the data collection and processing were handled by a team, I asked the key informant for the details of other team members who I should interview.

To gather information on whether KPIs of the EKPPD influence policy-making processes in the districts/municipalities, I tried to interview senior officials in the positions likely to use them, such as officials in planning and development bodies or involved in setting local budgets. I approached these officials by showing the permission letter I have from the mayor/district head to conduct research, except in one district, where all of the interviews were arranged by the district head himself, and in another municipality where I knew most of the officials personally.⁵⁷

Near to the end of the fieldwork, I had not managed to get any interview with local policy-makers (i.e. district heads/mayors). Interviews with two district heads and one mayor were made possible with the help of Province C's governor. The governor contacted them and arranged the interviews for me. Access to the governor was obtained through my personal network. Meanwhile, I obtained contact with key appointment holder in the regional government via a key informant in one of municipalities studied in this province. An interview with a regional evaluator from the regional development and supervisory body was obtained through another personal contact. This evaluator also introduced me to another evaluator.

⁵⁶ Elements of local government in Indonesia are termed as 'working units' as an English translation of *Satuan Kerja Perangkat Daerah (SKPD)*

⁵⁷ I worked for this municipality prior to studying for my PhD.

The phone interview with the key appointment holder in Province D was possible through the help of my contact in that province, too. Finally, a phone interview with a key appointment holder in province E was obtained through one of the respondents to the survey questionnaire, who gave his phone number for further clarification. In short, interviews were established through various approaches. The details of the interviews that took place are summarised in in Table 4.3 below.

Investigation level	Actual Interviews		
National level			7 Interviews
Regional and Local Levels			
(1) Province A (West part – Java Island)		-	
- Municipality x	4 Interviews		
(2) Province B (East part - Celebes)		5 Interviews	
- Municipality y	3 Interviews		
(3) Province C (West part – Sumatra Island)		4 Interviews	
- Municipality 1	12 Interviews		
- Municipality 2	7 Interviews		
- Municipality 3	4 Interviews		
- Municipality 4	3 Interviews		
- District 1	4 Interviews		
- District 2	8 Interviews		
- District 3	7 Interviews		
(4) Province D (West part – Sumatra Island) (phone interview)		1 Interview	
(5) Province E (Middle part – Borneo Island) (phone interview)		1 Interview	
Actual interviews at local level	42 interviews		
Actual interviews at regional level		11 Interviews	
Actual interviews at the national level			7 Interviews
Actual interviews in total	60 interviews		

Table 4.3 Details of Actual Interviews

Source: Developed by author

As can be seen from Table 4.3 above, there were some changes from the plan shown in Table 4.2. First, in terms of number of provinces involved, five provinces were involved instead of three, although the two extras were phone interviews and there was only one interview in each province. Second, comparison between the three main parts of the country: west, middle and east could not be made because two provinces that I observed were in fact from the west. The province from the east was as planned. A field visit could not be done to the province representing the middle part of the country because of difficulty in getting access at the

beginning and also cost constraint. In addition, only in Province C did I manage to include both types of local government: urban and rural. In the first two provinces, I only got one local government, which was urban (municipality). In province C, however, I obtained seven local governments instead of two as planned. In terms of number of interviews, overall I still obtained 60 interviews in total as planned.

Thus, the semi-structured interviews were conducted for a range of stakeholders involved in the Indonesian new measurement system, at national, regional and local government levels. All interviews were carried out face-to-face, except for two which were conducted by telephone as mentioned earlier. The interview was thematic and topic-centred. The interview schedule is provided in Appendix II.

Key informants available at national government level were quite limited. Government officials are very often rotated to different posts, and it was thus difficult to find key appointment holders who had been involved in all of the phases of the new Indonesian measurement system. Some had retired by the time of data collection. Nevertheless, the interviews included (i) key appointment holders involved during the design process, on-going implementation or both, and (ii) key appointment holders with a connection either to the establishment of the system or to the current implementation and use of the system. These interviews provided information on the new Indonesian measurement system from the perspective of the national government as the owner and implementer of the system. More specifically, the information covers (1) why and how the system was established, (2) the status of the on-going implementation process of the system, and (3) the use and usefulness of the system.

Key informants at the regional government level were the key appointment holders in charge of technical evaluation and reporting performance. At local government level the interviews

involved a wider range of stakeholders: the district heads/mayors as the local policy-makers, key appointment holders for the Indonesian new measurement system (such as the general secretary, the heads of government departments and regional autonomy sub-departments), and other officials involved in the reporting process (such as the head of finance office, the head of budget division, the head of local planning and development body). For the purpose of comparison with the previous performance measurement system which continues to be applied in Indonesian local government (LAKIP), interviews were also conducted with the key appointment holders in charge of this performance report. Interviews were also carried out with key appointment holders at the policy implementer level, for example in the health and education agencies. A summary of the information gathered during interviews with key informants at different levels of government is presented in Table 4.4 below.

Each interview lasted for one to two hours; with the permission of the informants most were digitally recorded. Interviews mainly took place in the key informants' office. To ensure a high quality recording, an additional microphone was used. I also used the interview guide containing topics to be covered during the interview. The interview guide referred to the case study protocol. The interviews process, however, were very challenging. Although the interview guide was prepared, the need for numerous quick judgments required the ability to make on-the-spot decisions regarding content and sequence of questions as the interview progressed. As Mason (2002) says 'these have to be done quickly, effectively and coherently and in ways which are consistent with the research questions' (p.67). A semi-structured interview is thus said to require a great deal of intellectual preparation.

Interview sites	Information obtained
National government	<ul style="list-style-type: none"> a. Reasons and processes undertaken during the design stage of the new performance measurement system b. Implementation process c. Implementation problems encountered by the national evaluation team d. The reason for non-use of the information produced from the evaluation
Regional government	<ul style="list-style-type: none"> a. Process and procedures of evaluation undertaken by the regional evaluation team b. Problems of regional evaluation c. Process and procedures of reporting undertaken at regional government d. Problems of reporting faced by regional government
Local government	<ul style="list-style-type: none"> a. Process and procedures of reporting undertaken at local government b. Problems faced by local government in reporting performance c. Performance information use at local government d. Responses of local government on the reporting requirement

Table 4.4 Summary of Information Obtained from Semi-Structured Interviews
Source: Developed by author, based on fieldwork

Observation

Observation was also used to generate data in this study because the nature of this enquiry requires ‘depth, complexity, roundedness and multidimensionality in data, rather than surface analysis of broad patterns’ (Mason, 2002). A distinction can be made between direct observation and participant observation (Yin, 2009). This study used direct observation which is consistent with the role of researcher as a visitor⁵⁸. Direct observation ranges in form from formal to casual data collection activities (Yin, 2009). Attending a meeting is an example of formal observation and can be included in the case study protocol. Direct observation (which is less formal) could be undertaken throughout a field visit, for instance while collecting other evidence, such as interviews.

⁵⁸ Ryan et al. (2002) distinguish five different roles implemented by researchers in doing case study research. They include: outsider, visitor, facilitator, participant and actor. According to Ryan et al. (2002, p. 152), visitor is possibly the most common perception of the case researcher; as a visitor, ‘the researcher is not directly involved in the issues being researched, but even the act of talking about these issues could have an impact upon those are the subject of the research.’

This study includes both formal and informal observations. Informal observation took place at national government level, during the follow-up interview with a key informant from the Financial Development Supervisory Body. The purpose of the interview was to clarify the mechanism of evaluation, especially how scores for key performance indicators (KPIs) are assigned. However, while explaining the mechanism according to the evaluation manual, the key informant was called away a meeting. He instructed two staff members, members of the national evaluation team, to cover the interview session. One of the evaluators showed us the evaluation template and demonstrated how it produces the final performance index on the computer.

Another example of informal observation occurred during the interview with key informants in Province B, more specifically at the regional inspectorate where the regional evaluation team was based. After interviewing the head of the inspectorate there was a chance to have an informal discussion with the members of the regional evaluation team and to see how they input KPIs using the evaluation template. A group of evaluators were discussing the many data problems they encounter when inputting the data, one of whom was seen to provide a consultation to a key appointment holder from a municipality. The key appointment holder from the municipality did not understand what data she was being asked to supply for a particular indicator. It was lunchtime and a couple of evaluators were thus free to talk about the problems they faced, and how exhausting and confusing they found the evaluation process. This informal observation provided invaluable insights into some of the problems with the Indonesian new measurement system, along with evidence of the lack of ICT support which is needed to implement a performance measurement system.

An example of informal observation at local government level occurred during the visit to municipality 6. An interview was scheduled with the general secretary of the municipality on

21 February 2012. However, he had to lead a meeting to discuss the progress of four main reports due at the same time (a financial report, an accountability report for the local parliament, a performance report for Ministry of Apparatus and Bureaucratic Reform and performance report for MoHA). I was able to observe the meeting; the interview was to take place at the end of the meeting. Many useful insights were gained throughout the meeting which suggested a number of problems encountered by the municipality in their efforts to meet different reporting requirements with limited resources.

Informal observations were undertaken on another three occasions, firstly during a visit to a guesthouse owned by municipality 1 at province C where the local team stayed for about two months, secondly during a visit to a local team of municipality 2 within the same province who worked in a hotel hired for a week to finalise the performance report and thirdly, during the visit to the finance office of municipality 4 for the purpose of interviewing one of key informant. Before the interview took place, an official from the finance office and I had lunch. During the lunch, the official started to tell anecdotes of irregularities taking place in the everyday practices of local government. These included: policymakers deliberately making budget allocation for public work agency, (a working unit dealing with many big physical projects such as roads, bridges and other infrastructures), higher than it should be for the purpose of covering any off-budget expenditures throughout the fiscal year. Thus, it has been taken for granted that the public works agency is used as a source of finance for anything that cannot be included in the formal local government budget document. Another example mentioned by the official was related to the practice of bribing members of the local parliament; so that they could speed up the processes involved with approving the budget proposal.

Two examples of formal observations undertaken during this research include attending a budget discussion meeting between executives and local parliament members in municipality

4 (2 December 2011)⁵⁹, and a one-day workshop arranged by the regional evaluation team in C province (27 February 2012). The first was aimed at understanding the local government budget process, and was included in the case study protocol at the beginning, before going to the field. The plan to attend the one-day workshop, however, was made during the field visit to municipality 5, where the key informant informed us about workshop and helped to contact the key appointment holder in charge to arrange our attendance.

The case study protocol was updated to include the observation of the workshop, which was held in the capital city of Province C and attended by representatives from almost all local governments in Province C. This observation provided me with a deep understanding of the problems encountered by key appointment holders at the local government level when reporting performance according to the new measurement system. Many of the questions from workshop participants indicated how difficult the system is to work in practice and the confusion they face in understanding it. During the interview with the key appointment holder at the governor's office the next day, I was shown the 2012 performance report of the province C which was being prepared.

The key appointment holder at the governor office of Province C showed me how he had to just copy and paste the same narrative for each programme because of the difficult timetable set in the new measurement system. The difficult timetable has adversely affected the quality of the performance report. Besides the difficult timetable, he also believed that the narrative part of the report would be not read during the evaluation process. He assumed that evaluators would be concerned only with indicators attached to the end of the report. The formal

⁵⁹ This observation took place immediately after I reached the field, when I was unaware that a permission letter from MoHA needed to be obtained before conducting this research.

observation at local government level included attending meetings to discuss the progress of the reporting performance under the requirement of the new measurement system.

During the fieldwork in Province C (which included four municipalities and three districts), the journey to each research sites was part of the observation. I used municipality 4 (which is my hometown) as my base, from where the nearest research site was about two hours journey by car (municipality 5 and district 1) and the farthest one five to six hours journey (district 3). Each research site was visited three to six times. By taking different routes in every visit, I used the opportunity to observe the social and geographical conditions of the districts/municipalities being studied. This was possible because I used a private car and the driver was knowledgeable about all the areas visited. One municipality might be very small and could be circled in one day (such as municipality 3); another research site occupied a huge area, making it impossible to visit all sub-districts in one day. Observation during the research journey helped to understand the difficulties faced by the districts/municipalities included in this study in collecting the data required for the new measurement system.

Documents

The primary use of documents in case study research is ‘to corroborate and augment evidence from other sources’ (Yin, 2009, p. 103). In the current study, their most significant use was in clarifying the role of international donor agencies and their interest in the new Indonesian measurement system, as information gathered from interviews was insufficient to provide a convincing argument. Another example of the use of documents was in identifying stakeholders who according to the regulations are mandated to be involved in the implementation process of the new measurement system. Then, looking at what type of feedback was given by the national and regional evaluation teams (the feedback is provided in the evaluation report issued by the national and regional evaluation teams) helped to explain

why the feedback was not used by the local government. Moreover, during the investigation at the local government level, the local strategic plan, mid-term plan and budget documents were assessed in order to establish a connection with the measurement aspects of the new measurement system. If a link is proven between the two, it implies that the new measurement system is used to inform local policy-making processes; if not, it means the new measurement system is not used yet by local policymakers.

Some documents existed prior to the study, such as the regulations on the new measurement system, and newspaper articles related to its early implementation. According to Yin (2009), an internet search for relevant documentation prior to field visits can provide invaluable information. For the purposes of this research, the internet sources collected prior to data collection included a PowerPoint presentation for workshops on the new measurement system arranged by MoHA in different locations. This helped to obtain initial information regarding the features and measurement techniques adopted in the new measurement system. Most documents, however, were collected during the fieldwork process. Relevant documents were collected at all levels of government. At national government level for instance, these include the system manuals (of particular importance was the manual of evaluations which are not made publicly accessible), evaluation reports, the list of districts/municipalities and provinces according to its position or rank in the last five evaluations (2008-2013). At regional government level, an example of the regional evaluation report (Province C), the governor's decision letter related to the formation of the regional team (Province B), local government performance reports following the new measurement system for five years (2007-2012), local strategic planning, local mid-term plan and local budget, and performance report prepared according to the Accountability and Performance Report of Governmental Institutions. Besides the existing documents, others (such as the case study database) were generated during the research process, as Mason (2002) recommended.

Questionnaires

To collect further data in the most efficient way, I used questionnaires which I sent to 31 districts/municipalities. The nine districts/municipalities which participated in the field visits were excluded. The questionnaire was designed based on understanding gained from the field visits. The purpose of this survey was not to conduct sophisticated statistical analysis but to support my qualitative data. In other words, the survey was used as a data collection method for the purpose of method triangulation: collecting more data for my interpretive study. The key appointment holders in the 31 districts/municipalities which participated in the survey questionnaires were first contacted over the phone to ask whether they agreed to participate in the study or not. To those who did agree, I sent the questionnaires by post/email/direct courier, depended on the circumstances in each district/municipality.

The questionnaires focused on technical problems encountered in reporting performance for the purpose of the EKPPD, as the target respondents of the questionnaires were key appointment holders directly in charge of reporting performance for the purpose of the EKPPD in terms of technical aspects. The reason to do this was that the studies conducted in nine districts/municipalities showed that this position is likely the one that will have knowledge about the EKPPD in most of local government in Indonesia. If I targeted respondents in higher level positions, it was likely that these higher positions would not be involved and have knowledge about the EKPPD in every local government. Therefore, it was better to focused on a level where I was sure that the key appointment holder in every local government could answer, even though the responses would be limited to technical information (implementation) not use.

The questionnaire was divided into four sections. Section A focused on DATA PROBLEMS. The question asked was “To what extent do you agree or disagree with these statements?” Nine

items of statements were included in this section (Questions 1-9) relating to opinion about the difficulties in reporting KPIs for the EKPPD. Respondents were asked to tick the answer applicable to them in a 5-point Likert scale running through “strongly agree”, “agree”, “neutral”, “disagree”, and “strongly disagree”. Section B aimed to seek respondents’ opinions regarding KPIs and the format of the EKPPD. Five items were asked in this section (Questions 10-14). Section C included three questions (Questions 15-17) seeking respondents’ perceptions of the degree of importance of different reports that local governments are obligated by the elected leaders to provide. Respondents were asked to put four types of report (financial report, accountability report to parliament, LAKIP, and LPPD) in order according to the degree of importance of the reports for the elected leaders.

Question 16 asked about the extent to which the respondent agreed or disagreed that the EKPPD system did not get enough attention from stakeholders because there were no financial consequences. Then, Question 17 related to the achievement of the mission and visions of the elected leader in comparison with the achievement of a high EKPPD index. Finally Section D provided an opportunity for respondents to write any comments/suggestions about the EKPPD. A contact page was provided, in case respondents were willing to be contacted for further clarification. This contact page was separated immediately from the returned questionnaire before analysis took place to ensure anonymity of the questionnaire.

Province	Location		District Participated	Municipality Participated	Total local government Participated
	Island	Represent			
I*	Sumatra	West	2	1	3
II**	Sumatra	West	2	1	3
III	Sumatra	West	1	1	2
IV*	Java	West	2	-	2
V	Java	West	4	1	5
VI	Bali	West	-	1	1
VII	Borneo	Middle	3	1	4
VIII**	Borneo	Middle	4	1	5
IX*	Celebes	East	3	2	5
X	North Moluccas	East	2	2	4
Total			23	11	34

Note: * These provinces participated in the previous stage of the study: I also conducted field visits to local governments in this province but the local governments that participated in this survey were different from those included in the observation.

** These provinces participated in the previous stage of the study: I conducted phone interviews with key informants at regional government level; none of the local governments within these provinces participated in the previous stage of the study.

Table 4.5 Included in the Survey

Source: Developed by author

Thus, despite the concentration of interviews in one province (Province C), the data was supplemented with surveys at local government level, involving ten provinces. Although these ten provinces also include provinces which participated in the previous stage of the study, none of the local governments where I had conducted face-to-face interviews were included in this survey. Moreover, the survey covered the three main parts of the country: west, middle and east. Thus, I collected a considerably rich data which can ensure that the concentration of face-to-face interviews in one province did not distort my data. Fifteen-minute follow-up interviews by phone were arranged for two survey respondents. In total, 35 questionnaires were prepared at the beginning, but 4 questionnaires could not be distributed: 2 in North Moluccas and 2 in Papua provinces because of transportation difficulties. However, from the 31 questionnaires that were finally distributed, I received 100% response.

There were some difficulties for me in covering the whole country in this study. First, availability of access depended on availability of contact. The request to conduct a case study at a local government or a province tended to not get a response when I only went through a formal process. As an individual researcher (i.e. merely a PhD student), I have not got many

networks; thus I had very limited contacts who could help to open access in a few provinces and local governments. Thus, the selection of case site sometimes could not follow the ideal criteria previously set. As described earlier, I wanted to pick two local governments in each province so that I could treat local government and provinces as an embedded case study and then conduct a case comparison for the embedded cases. However, this objective could not be achieved because the number of local governments studied in each province was not the same. In two provinces, I only obtained one municipality as a case, whereas in the third province, I managed to get seven cases (4 municipalities and 3 districts). Meanwhile, in the other two provinces, I did not get any cases at the local level.

There was also a problem of getting access to the whole range of stakeholders in the selected provinces, districts and municipalities. At certain sites (i.e. municipality/districts/provinces) I managed to get interviews with the whole range of stakeholders, whereas in others, I just got a few interviews with the key informant. Thus, the coverage of interviews was not comparable from one place to another, at the local government or province level. I could not make case comparisons between Provinces B and C, for example, because the interviews obtained in Province B were much wider than in Province C (at the regional government level). Case comparison at local level within Province A and B could not be done because there was only one local government in each province. Thus, if I treated 'province' or 'district' or 'municipality' as the case, the data from different cases were not comparable. That was why re-defined the cases from 'province' or 'district' or 'municipality' to 'system' was the solution for the problem.

The case study is categorised as an 'intensive' form of research. Piles of data and documents need to be processed. Therefore, an individual researcher will not be able to manage too many cases. Finally, face-to-face interviews require travelling to the case site. The challenge to cover

the whole country when conducting research in the Indonesian context relates to the size of the country, which is huge (33 provinces and over 500 local governments). To visit all of these provinces and local government is not feasible under the time and cost constraints for the PhD project. Accessibility to some regions was also difficult in terms of transportation. Some places can only could be reached by air or sea transportation, which also not regularly available. For regions relying air transportation (i.e. Papua), the travel costs would be extremely high.

4.3.5 Data analysis

Flick (2014) states ‘data analysis is the central step in qualitative research. Whatever the data are, it is their analysis that, in a decisive way, forms the outcomes of the research’ (p.3). Maxwell and Miller (2008) and Maxwell (2011), Maxwell and Chmiel (2014, p. 22) distinguish two major strategies to analyse qualitative data namely ‘categorizing’ and ‘connecting’ strategy (see Figure 4.3). These two strategies, in principle, are based on ‘similarity relations’ and ‘contiguity relations.’ When analysing qualitative data using similarity relations, researchers use similarities and differences to define categories and to group and compared the data by category. Contiguity-based relations, however, involve ‘juxtaposition in time and space, the influence of one thing on another, or relations among parts of a text.’ In other words, in building contiguity relations, researchers look for ‘actual connections between things, rather than similarities and differences.’ Thus, ‘contiguity relationships are identified among data in an actual context.’ (cf. Maxwell and Chmiel, 2014, p. 22).

As illustrated in Figure 4.5 below, according to Maxwell and Chmiel, 2014), coding and thematic analysis are two examples of techniques of categorising strategies. Coding refers to the activity of labelling the data segments and grouping them into category. The data segments then are examined and compared, both within category and between categories. Hence, the categories generated through coding are linked into larger patterns; according to Maxwell and

Chmiel (2014) this step implies establishing connection relationships (contiguity-based relations). However, Maxwell and Chmiel (2014) highlight that the connections made are only between the categories themselves, instead of between segments of actual data. The connections made imply aggregate account of contiguity relationships and not being able to reconstruct the specific contextual connections that were lost during the original categorising process. This strategy also means imposing uniformity on the actual diversity of relationships in the data, disguising the complexity of such relationships in an attempt to emphasise the most predominant connections.

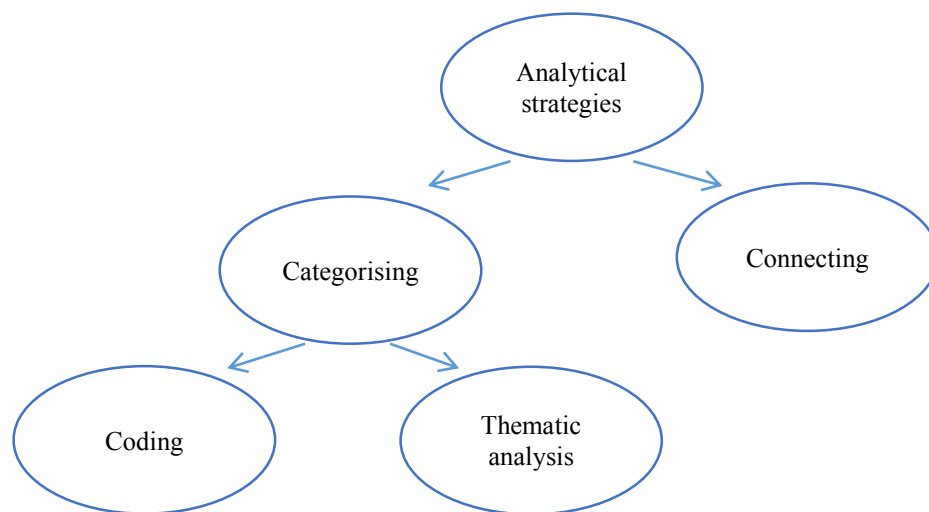


Figure 4.5 Analytical Strategies in Qualitative Research
Source: Maxwell and Chmiel (2014)

Thematic analysis is defined by Ayres (2008) as ‘a data reduction and analysis strategy by which qualitative data are segmented, categorized, summarized, and reconstructed in a way that captures the important concepts within the data set’ (p. 867). According to Ayres (2008) thematic analysis embraces both categorising and connecting strategies. It involves categorising strategy because researchers identify similarities in terms of themes. Thematic analysis also includes connecting strategy because:

Throughout the analysis, the investigator considers the relevance of each theme to the research question and to the data set as a whole, thus keeping the developing analysis integrated. At the same time, as identification of

themes progresses, the investigator also considers the relationship among categories (Ayres, 2008, p. 868).

Ayres (2008) argues that through simultaneous processes of identifying themes and assessing the relationship among categories, researchers maintain the connection of data that have been decontextualized through coding to their sources. For Maxwell and Chmiel (2014), thematic analysis is still considered a categorising strategy:

The term ‘theme’ refers to a kind of coding strategy, it is often one with a broader or more abstract scope than those involved in the initial coding of data..., a theme often has an internal connected structure: a relationship between two concepts or actions, a proposition or belief, a narrative or argument, or other more complex sets of relations. However, its identification and establishment as a theme-showing that it is more than idiosyncratic occurrence – is inherently a categorizing process (p. 26).

Maxwell and Chmiel commented on Ayres’s argument about how thematic analysis retains connection of the data into their context: ‘the relationship among thematic *categories* are *generic* relationships, not ones between actual data, and thus substitute a single understanding for the original variation in relationships that existed in the data.’ The relationships among thematic categories are still generic because categorising techniques means decontextualisation of data and most of works on qualitative methods ‘say little about how one might analyse contextual relationship.’ However, when researchers employ case study research, categorising strategies retain the connection between data and context as the ‘data are interpreted within the unique context of each case in order to provide an account of a particular instance, setting, person or event’ (cf. Maxwell and Chmiel, 2014, p. 26).

I used the thematic analysis to analyse the interviews data in this study. The main themes were informed by the literature and research questions; they are: **drivers**, **design**, **implementation** and **use** and were divided into several sub-themes. Sub-themes also came from the literature; except one theme (expectations) emerged from the findings. Items within the sub-themes were partly informed by the literature, and partly emerged from the findings. I transcribed the

interviews data myself and analysed them manually. I did not use a software package to analyse qualitative data such as computer assisted qualitative data analysis software (CAQDAS). According to Scapens (2004) this type of software is effective to analyse structured-interview questions whereas my interview questions were semi-structured. Analysing data manually increased my familiarity with the data which is very important in conducting an interpretive research. The procedures of thematic analysis used were adapted from Matthews and Ross (2010) (see Table 4.6).

Step	Explanation
1	Take the descriptive data (with codes) from each participant
2	Read and re-read the descriptive data (with codes) for each research participant to become familiar with the text
3	Take a piece of descriptive data (with codes), read through it, and annotate it with concepts in the margin
4	Divide the whole text into concepts
5	Dispose of duplicate concepts
6	Define each concept by writing a brief sentence including all text which falls within this theme
7	List all refined concepts on a new piece of paper
8	Arrange concepts in logical order
9	Read through the whole transcript again and add thoughts and ideas
10	Return to the text and summarise each piece of information under the relevant concepts including, highlights full explanatory and illustrative quotations, page and line number, names or other characteristics, and asterisk repeated points
11	Continue until the whole text is summarised
12	Organise summarised points
13	Add ideas, thoughts and theories
14	Rearrange the concepts and sub-concepts and summarise for each interview
15	Create analytical matrix to compare and contrast results for similarities, differences and inconsistencies within and across all interviews
16	Identify any further queries and/ or tentative research questions

Table 4.6 Step by Step of Thematic Analysis
Source: Adapted from Matthews and Ross (2010, p. 372-385)

For documentary data, I explored relationships and meanings within a text and in relation to other texts. I paid attention to the form and content of document, examined function of documents, and assessed the relationship of a particular document to another. These three analytical strategies are also discussed in (Coffey, 2014). Finally, for survey questionnaire data, I analysed them using descriptive statistic (i.e. frequency and percentage) and then I

produced bar charts for each question. I tabulated how many respondents provided the answers “strongly agree”, “agree”, “neutral”, “disagree”, and “strongly disagree”.

Scapens (1990) suggests that the use of diagram can be very useful to develop explanations from the case. Other authors (Miles and Huberman, 1994; Miles et al., 2014) also recommend the use of diagrams or figures to display qualitative data. The use of tables or matrices is also common as a technique for data display (Miles and Huberman, 1994; Miles et al. 2014).

The process of data analysis began during the data collection. Analysis of interviews with key national government informants, for example, was completed before proceeding to the next stage of the study, and findings from this first investigation were used to refine the case study protocol. Starting the data analysis simultaneously with data collection is also recommended in Miles et al. (2014). According to Miles et al. (2014), early analysis helps researchers to think of the existing data and to generate strategies of collecting new, often richer data.

By the end of October 2012 the initial report of case study findings had been presented to the supervisor. Indications were that my analysis of the role played by international donor agencies in the Indonesian new measurement system was still very weak. This was because of insufficient data obtained from the semi-structured interviews with key informants at the national government level. At that point, I had not corroborated the interview data by using documentary analysis of donor documents, such as the World Bank reports. I then went back to the first step of case study research defined by (Scapens, 1990): the literature review. Another three months was spent reviewing substantive numbers of World Bank reports and other documents related to the role played by international donors in relation to performance measurement in developing economies. I revised the literature review to include discussion of the history of performance measurement in developing economies (see section 3.3). Section

3.3 eventually helps to explain the role of international donor agencies behind the Indonesian new measurement system establishment.

I presented the second version of the case study report to the supervisor at the end of October 2013. However, there was still a hole in the literature review. Findings related to the reasons the Indonesian new measurement system was established showed a connection to the neo-liberal agenda of international donor agencies. However, I had not covered the concept of neoliberalism in the literature review. I therefore went back to reviewing the literature. The final, revised literature review chapters include a section about neoliberalism and good governance concepts in a development context. This section shows how performance measurement in developing economies can be seen in the notion of neo-liberalism, and helps to understand the interest of international donor agencies behind the establishment of the Indonesian new measurement system.

I gained a very important lesson from this experience, namely, that in conducting an interpretive case study, the data should not merely be read literally but in an interpretive manner (Mason, 2002). Thus Jönsson and Lukka (2006) assert that a theoretical contribution will not be obtained by interpretive research if the researcher relies on knowledge gained merely from the informant's point of view, without including his/her own interpretation of the data. The second lesson is that case study research is indeed very difficult, comprising a complex iterative process. In other words, the research process was far from a smooth process, as outlined in Scapens (1990; 2004) and mentioned earlier.

The iteration process also happened in defining the phases of performance measurement adopted in this study. As mentioned earlier, the design of this study was initially informed by three papers: Propper and Wilson (2003), Cavaluzzo and Ittner (2004) and Mimba et al. (2007). During the data collection stage I also included insights from Van Dooren (2005) and Van

Dooren et al. (2010) to operationalise the phase of *implementation*. At the data analysis stage, I discovered a paper written by Bourne et al. (2000) which divides performance measurement systems into three phases: design, implementation and use. Bourne et al. (2000) led to the first revision of phases division and a definition of each phase. Then, at the later stage of the study, a new paper published by Van Helden et al. (2012) offered a comprehensive performance management life cycle framework. Van Helden et al. (2012) was helpful for the second revision of the performance measurement phases framework built in this study. Before the second revision, I used one direction arrows to connect different phases; I changed these into two directions arrows in the second revision. The two directions arrows indicate that immediate corrections can take place at any phase of a performance measurement system, as Van Helden et al. (2012) suggested. In addition, I also adopted the term ‘institutional factors,’ as used in Van Helden et al. (2012) to replace the previous term used in this study (environmental factors). The research process is summarised in Table 4.7 below.

No	Activity	Year 1				Year 2				Year 3				Year 4			
1	Literature review																
2	Documentary analysis																
3	Development of research instruments																
4	Fieldwork																
5	Data analysis																
6	Initial findings																
7	First draft																
8	Writing-up																

Table 4.7 Research Process

Source: Developed by author

4.4 Criteria for Research evaluation

Reliability and validity are two important tests of evidence in quantitative research (see Ryan et al. 2002, p. 155). Reliability indicates ‘the extent to which evidence is independent of the

person using it, and thus implies an independent, impersonal investigator'. The concept of validity reflects 'the extent to which the data is in some sense a 'true' reflection of the real world'. In other words, validity implies 'an objective reliability.' In conducting case study research, however, Scapens (2004, p.268) argues that 'such notions of reliability and validity are unlikely to be appropriate.' This is because the researcher's interpretation and 'his/her relation to the subject matter are essential elements of any case study.' Scapens (2004, p.270) therefore suggests that when doing case study research, concepts of reliability, internal validity and external validity should be replaced by 'procedural reliability'; 'contextual validity' and 'transferability of findings.'

4.4.1 Procedural reliability

According to Scapens (2004), procedural reliability means:

The research should have a good design that addresses clearly specified research questions; there should be a comprehensive research plan; all evidence should be recorded in coherent and comprehensive field notes; and the case analysis should be fully documented. (Scapens, 2004, pp. 268-270)

Procedural reliability in this study was ensured through building **the case study protocol** and **the case study database**. I developed my case study protocol into five sections, following the structure recommended by (Yin, 2009; 2010). According to Yin (2010, p. 84), a complete case study protocol should include:

1. The procedures for contacting key informants and fieldwork arrangements;
2. Explicit language and reminders for implementing and enforcing the rules for protecting human subjects;
3. A detail line of questions, or a mental agenda to be addressed throughout the data collection, including suggestions about the relevant sources of data
4. A preliminary outline for the final case study report.

In relation to point c in the quote from Yin (2010) above, the questions included in the case study protocol are not 'the questions to be posed to case study informants...' (p. 86). The

protocol's questions are designed for the researcher, posing a query for which the researcher is to gather evidence.' In other words, the protocol's questions are not the questions to be asked to the case study informants. Each question may be accompanied by additional information such as (i) a brief list of hypothesised source of evidence for answering the question and (ii) clues about identifying the relevant sources. The list can direct researcher to specific informants to be interviewed, specific documents to be assessed, or specific field observations to be made (cf. Yin, 2010, p. 86). In essence, these questions remind the researcher of the information which needs to be collected and why. In other words, 'the main purpose of the protocol's questions is to keep the researcher on track as data collection proceeds' (Yin, 2009, p. 86). The case study protocol of this study can be found in the Appendix I, and is similar to the research plan mentioned in Scapens (2004).

My case study database consists of field notes, case study documents, tabular materials and narrative, a structure which follows in Yin's (2009) recommendation. My own field notes formed the most important component of the case study database, and consist of the results of my interviews, observations and documentary analysis. Different forms of notes are acceptable: handwritten, typed, on audiotape, or word-processing or other electronic files (Yin, 2009). My notes were mainly hand-written, a form which I found convenient, as I spent a lot of time journeying during the fieldwork. Field visits to local government offices, for example, often took the whole day, and I made use of the travel time, as well as time spent waiting for the interviews (if more than one interview took place on the same day) to write up notes by hand (conditions in the field made it impossible to type up notes using a laptop). Case study documents refer to relevant documents collected during the course of the study. These mounted up, and were stored in portable document format (PDF). Tabular material is the survey data.

Finally, certain types of narrative were produced only upon completion of all data collection. These include the narrative of each district/municipality/province which participated in the study (contained in the part of the database but not in the final case study report). Another form of narrative was composed from open-ended answers to the questions in the case study protocol. This is also not included in the final report of the case study; the final report was however was influenced by this narrative. According to Yin (2009), ‘the main purpose of the open-ended answer is to document the connection between specific pieces of evidence and various issues in the case study, generously using footnotes and citations.’ Yin again says: ‘the entire set of answers can be considered as part of the case study database.’ The essential characteristic of good answers is that they succeed in connecting ‘the pertinent issues – through adequate citations – to specific evidence’ (cf. Yin, 2009, p. 122).

Reliability of information in a case study is also increased through maintaining a chain of evidence (see Figure 4.6). A similar principle to the audit of financial statements, where auditors should be able to trace the evidence used to prepare the report, applies to the case study research. More clearly, the readers of the case study or other researchers should be able to trace back any evidence from ‘initial research questions to ultimate case study conclusions’ or vice versa (cf. Yin, 2009, p. 122).

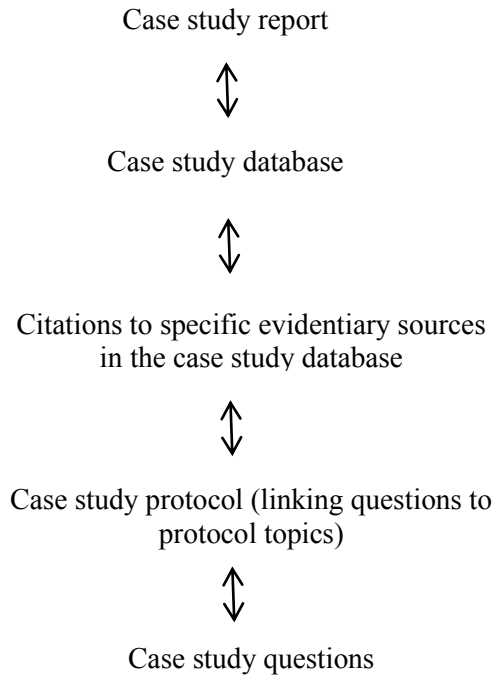


Figure 4.6 Maintaining a Chain of Evidence
Source: Yin (2009, p. 123)

4.4.2 Contextual validity

There are two forms of validity: contextual validity and transferability of findings. Contextual validity indicates ‘the credibility of the case study evidence and the resulting conclusions drawn’ (Scapens, 2004, p. 269) and was achieved through collecting evidence from different sources. For example, results from the interviews were compared with those obtained through documentary analysis (i.e. data triangulation). The same topic was asked of key informants at different levels of investigation. For example, key informants at the national government level raised an issue about data, and I investigated further what problems were faced by local government. The results obtained from study at local government level on a particular issue were compared to those obtained from study at the regional government level. I analysed the consistency or inconsistency of results from the three different levels of investigations for the same issue. Specific to investigation at the local government level, I also ensured internal validity through method triangulation. For the same issues (especially for those related to data

problems and KPIs), the results obtained from the nine districts/municipalities participating in the field visits were compared to results of the survey of 31 districts/municipalities. For investigation at regional government level, triangulation was achieved through comparing field visits to two provinces and phone interviews with key appointment holders from another two provinces (see Figure 4.7).

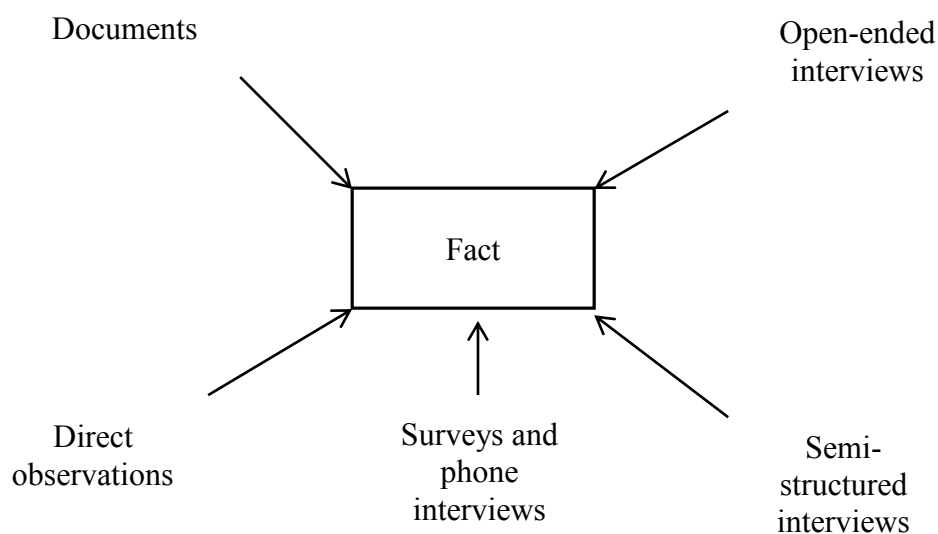


Figure 4.7 Convergence of Evidence
Source: Adapted from Yin (2009)

4.4.3 Transferability

Transferability refers to external validity which concerns whether the findings of the study can be applied to other similar settings. Scapens (2004) explains the process of theoretical generalisation in interpretive case study as follows. When theories provide convincing explanations about the case, the theories can be maintained and used in other case studies. However, theories that do not explain the case need to be modified and rejected. An individual case studies aims ‘to explain particular circumstances’ but a research programme aims ‘to generate theories that are capable of explaining all observations made.’ This argument is consistent with Scapens’s statement ‘case studies seek to apply theories in new contexts, the

theory is likely to be refined and/ or modified, and through this process the theory is generalised. Such a process could be described as theoretical generalisation' (cf. Scapens, 2004, p. 269).

Some findings of this study are transferable to other developing economies. First rational and institutional explanations for the drivers of performance measurement initiatives in this context is transferable to other developing economies. The content of the internal motif for example, might be different but whether the initiative could be driven by the internal motif, it is also possible to happen in other developing economies. In terms of normative isomorphism exerted by the international donor agencies such as the World Bank, it is likely most of developing economies experience this. Next, the findings related to design, implementation and use of performance measurement system will be influenced by technical, organisational and institutional factors will be transferable to other developing economies. However, the dynamic might be different because institutional factors might be differ from one developing economies to another.

Furthermore, other findings are also transferable such as the need to first build 1) technical and organisational capacity, and 2) performance culture, before embarking on the design and implementation of performance measurement systems. Building core performance measurement capacity and performance culture takes time and developing economies should therefore not rush to embrace performance measurement initiatives. Without the presence of both (core capacity for performance measurement and performance culture), designing and implementing performance measurement is likely to be waste of precious resources. Instead the process requires substantive resources, absence of core capacity tends to result in the performance measurement system not being used effectively, with any information not being used to inform policy making processes. In terms of what type of public sector reforms drive

performance measurement initiatives, this may depend on the institutional context of each particular developing economy. However, one thing is likely to be the same: the dominant influence and roles played by international donor agencies (the World Bank in particular). More specifically, the World Bank's ECD concept would apply, to attempt to persuade and ensure developing economies embrace performance measurement initiatives.

4.5 Conclusion

I found that the whole process of this case study research showed agreement with the argument of Yin (1984) and Scapens (2004; 1990). Case study research involves a complex iterative process. Yin (1984) for example says 'case study is remarkably hard, even though case studies have traditionally been considered to be 'soft' research. Paradoxically, the 'softer' a research technique, the harder it is to do' (p.26). Qualitative research in general requires good writing skills. Case study research in particular involves a lot of writing and re-writing. In the early stages of case study research, writing involves the research proposal, literature review and case study protocol. Then, field notes are written during data collection, and during data analysis a case study database needs to be written. Presenting the case study often involves several attempts at writing and re-writing. Moreover, carrying out qualitative research in general requires creativity; for example, creativity in presenting data in the most interesting way. Also among the challenges in presenting the results of the case study is to write in such a way that shows the readers that the researcher was genuinely there (at the case site). In my first attempt to write the case report, I was unable to show this. This however is part of the learning process.

CHAPTER 5

CONTEXT

5.1 Introduction

As indicated in the introduction of this thesis, the new Indonesian measurement initiative is connected to the decentralisation policy implemented since 2001. An understanding of the Indonesian decentralisation policy is therefore integral to understanding the new measurement initiative. Decentralisation was one of major policies undertaken in Indonesia as a part of political reform following the 1997/98 Asian financial crisis. As mentioned in chapter 3, 3.4, this crisis brought about the collapse of the Soeharto authoritarian regime in Indonesia. Up to the end of the 1990s, Indonesia was the world's most centralised country (Alm et al., 2001; Hofman and Kaiser, 2004). On 1 January 2001 however, Indonesia embarked upon 'big bang' decentralisation (Hofman and Kaiser, 2004), when two items of legislation on decentralisation (Law 22/1999 and Law 25/1999) came into force. If successful, Alm et al. (2001) suggest that this policy could turn Indonesia into one of world's most decentralised countries.

This chapter presents the characteristics of the decentralisation policy applied in Indonesia. It attempts to show that the 'big bang' approach rendered Indonesia largely unprepared for decentralisation. The objective of the policy was not clearly articulated and the decision was mainly influenced by political considerations. As a result, unprecedented power was devolved to local government instead of regional government. The lack of preparation for decentralisation was also reflected in a number of weaknesses contained in the 1999 laws on decentralisation. A combination of these flaws and the inadequate capacity of local governments compared to the scale of the power devolved to them resulted in a number of negative implications which became apparent soon after the implementation of

decentralisation. The 2001 decentralisation thus went in a different direction to that expected by international donor agencies, and from 2004 the government leaders formulated the revision of decentralisation policy.

This chapter begins with discussion about why Indonesia opted for the ‘big bang’ approach to decentralisation in 2001. This section also examines the fundamental changes to Indonesia’s governance caused by the 1999 decentralisation legislation. The discussion then moves on to some major consequences of the 2001 decentralisation, followed by an examination of the redefinition of decentralisation in 2004 and finally, conclusions.

5.2 Decentralisation in 2001

5.2.1 The ‘big bang’ approach

There are two ways to implement decentralisation: the ‘big bang’ and the gradualist approaches. According to Shah and Thompson (2004), two defining characteristics of the big bang approach are 1) that it is holistic or comprehensive, and 2) the lightning speed of implementation. The first refers to ensuring that ‘all pieces of the puzzle fit together’; the lightning speed of implementation means ‘the best use of this window of opportunity’ (p.20). In the context of Indonesia’s decentralisation, it took only around one and half years from the time the legislation on decentralisation was drafted to actual implementation. In 2001, decentralisation was both political and fiscal. Substantive authority was devolved to sub-national governments, leaving only five areas under control of national government: foreign policy, defence and security, fiscal and monetary policies, judiciary and religion. Indonesian decentralisation is thus classified as having been implemented by the big bang approach, as termed by Hofman and Kaiser (2004).

Two conditions explain why Indonesia opted for the big bang approach to decentralisation in 2001. Firstly, it was aimed at preventing a repeat of previous experiences, which had failed to fully implement decentralisation policies. Law 22/1999 as the legal basis for the 2001 decentralisation was not in fact the first law on decentralisation issued in Indonesia. Legislation had been passed prior to 1999 (for example, under laws 1/1957 and 5/1974). The initiative in 1957 came to a complete halt due to outbreaks of regional unrest in Sumatera, West Java and Sulawesi (the 1957 law was abolished in 1959). Further decentralisation law was passed in 1974 but not implemented until nearly 20 years later (the implementing regulations were issued only in 1992 and even then it was only partially implemented). Next, an experiment in 1996 to give autonomy rights to 26 districts/municipalities was also unsuccessful, as the government did not hand over the resources and facilities necessary to support the tasks. Thus, the long history of unsuccessful decentralisation initiatives in Indonesia was the first justification for the big bang approach in the 1999 initiative. In other words, it aimed to ensure that Law 22/1999 was really put into effect. This first reason has been discussed in the literature (see for examples Hofman and Kaiser, 2004; Silver, 2003).

The second reason for the big bang approach relates to the circumstances surrounding 1998, which were extraordinary. As mentioned earlier, the 1997/98 Asian financial crisis brought about the collapse of several regimes in Asian countries, included the authoritarian regime in Indonesia. Massive and bloody student protests in May 1998 calling for democracy forced Suharto to step down after 32 years in power. An even stronger demand, namely, for independence, from some regions with long-standing armed conflicts (such as Aceh and East Timor) and resource-rich regions added to the crisis. President Habibie who assumed power after the resignation of Suharto faced hard decision between maintaining the integrity of the country and responding to demands from its various regions. Granting autonomy to the regions

was seen as the best option at that time. This second reason is highlighted by (Hofman and Kaiser, 2004).

The very limited time allowed for preparation resulted in the Indonesia decentralisation being inadequately planned (Alm et al., 2001; Guess, 2005; Hofman and Kaiser, 2004). For example, its objectives were not clear. At the same time, ‘the first step in most successful decentralisation is to establish of an official general framework within which the broad goals of the reforms are articulated and agreed upon’ (Alm et al. 2001, p.87). Alm et al. (2001) question whether the government of Indonesia was clear itself about what it wanted to achieve through decentralisation, and whether there was enough support from parliament and society as a whole for objectives. The first step in Indonesia decentralisation was thus carried out inadequately (Alm et al., 2001; Guess, 2005). Similarly, Hofman and Kaiser (2004) describe that ‘the drafting of law remained largely bureaucratic, with little feedback from the politicians and even less consultations with the regions’ (p.18).

In the course of a year, over two million (or two-thirds) of central government employees were transferred to the regions⁶⁰. Public spending managed by local government jumped from around 17 per cent before decentralisation to 30 per cent afterwards (Hofman and Kaiser, 2004). At the same time, local government was largely unprepared for its new tasks and responsibilities (Alm et al., 2001; Guess, 2005; Basri, 2009). Basri (2009) gives an example of how stakeholders in some districts/municipalities were unable to utilise the significant increase of transfers received from the national government, presenting evidence that transfers were parked at the Central Bank of Indonesia or other commercial banks, rather than being used to stimulate development of the regional economy. The consideration of local policymakers was merely to gain interest from the money deposited, reflecting not only a narrow vision but also

⁶⁰ The term ‘regions’ refer to both provinces and districts/municipalities.

a lack of capacity to create real economic activities. This relates to Honadle's (1981) argument that the capacity to attract resources is not necessarily the same as the capacity to absorb them (see discussion about institutional capacity, 3.2.3).

5.2.2 Fundamental changes to Indonesia's governance

National and sub-national government relation

Silver (2003) refers to Law 22/1999 as 'radical' decentralisation legislation because it 'framed the imminent radical transformation of central and local government relations in Indonesia' (p.426). More specifically, Silver (2003) suggests that 'the impact of the decentralization legislation was a "new paradigm" in Indonesia's governance' (p.427). Silver (2003) is supported by other literature, such as Alm et al. (2001) and (Hofman and Kaiser, 2004). Silver (2003) suggests that the fundamental change to Indonesia's local governance structure was beyond even what the international donor agencies were advocating:

... [the legislations related to decentralisation], advanced Indonesia's local government reform process so rapidly that some of the international donors and government leaders responded, in aftermath of the 1999 laws, not so much with applause or even self-congratulations but with worried calls for retrenchment and even recentralisation. (Silver, 2003, p. 423)

There were several points in Law 22/1999 which eventually brought about the fundamental changes to Indonesia's governance structure. Firstly, substantive power was devolved to local, instead of to regional government. The authority of local government covers public service delivery such as public works, public health, education and culture, agriculture, transportation, trade and industry, investment, environment, land administration and cooperative and labour affairs (Article 11 of Law 22/1999). At the same time however, the authority of regional government was not clearly defined in the law. From an economic point of view however, provincial (that is, regional) government is in a better position than local government in terms of its capacity to shoulder such a scale of new authority and the responsibility of

decentralisation (Basri, 2009). If ensuring efficiency and effectiveness of public service delivery was the most important criteria in making the decision to decentralise, government should thus have devolved power to the provinces. However, for political reasons autonomy was finally granted to local government. This point will be discussed further later.

Secondly, local government was granted full autonomy while regional government was given partial autonomy. The distinction between the two is discussed in Rasyid (2004). Full autonomy means that local government obtains the discretion to create and implement local policies as long as they are consistent with national law and do not go against the public interests. Meanwhile, limited autonomy means that regional government is limited to 'what is promulgated in the law and can only make and implement policies in domestic affairs within that limit' (p.66). Simultaneously, the principle of deconcentration is applied to cover a wider area of central government operation at regional level. The status of governor as representative of national government at regional level, besides his/her position as the head of province, relates to this deconcentration principle. Unlike the governor, the district head/mayor (the head of district/municipality is purely head of his/her own localities⁶¹ (cf. Rasyid, 2004).

Thirdly, Law 22/1999 cut out the hierarchical relationship between local and provincial government. Article (2), versus 4, Law 22/1999 states: 'regions [provinces, districts and municipalities] are independent and have no hierarchical relationship between one and another.' This represented a very fundamental change in terms of the relationship between the national and sub-national governments⁶² before and after the 2001 decentralisation. Before decentralisation, provincial government and local government were tiers under the national

⁶¹ Under the previous law (Law 5/1974) districts heads/mayors were also awarded status as representatives of national government.

⁶² The term 'sub-national government' refers to both regional (provincial) and local (district) government.

government. However, afterwards, under Law 22/1999, provinces and districts/municipalities became equivalent, and have a coordination relationship (see Figure 5.1).

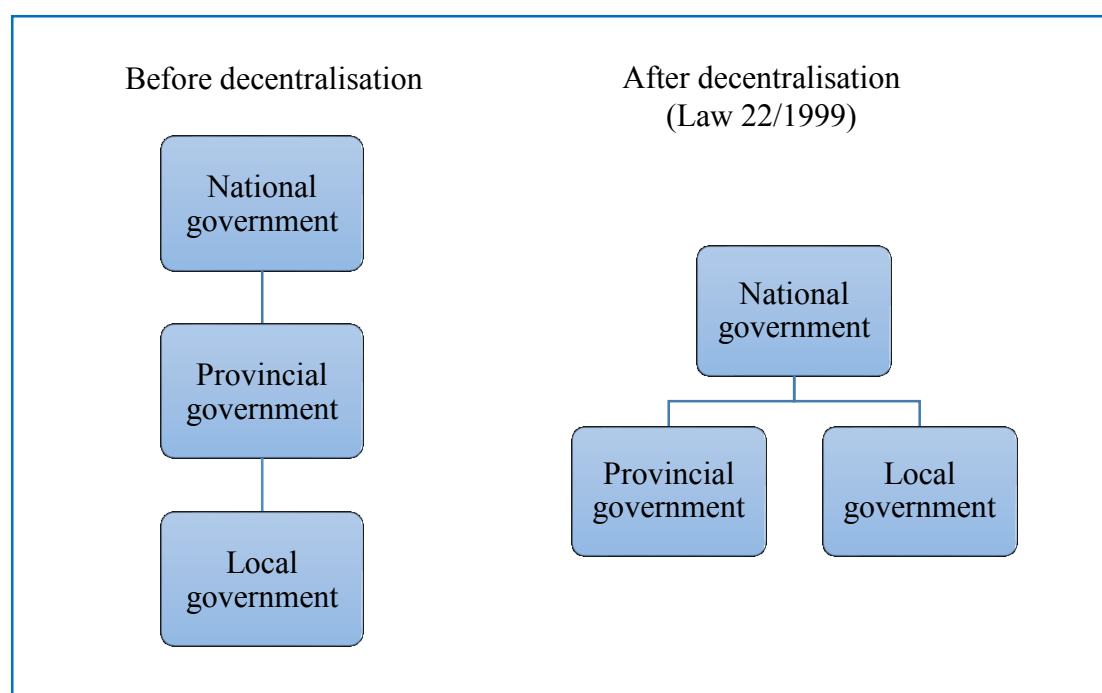


Figure 5.1 National-subnational Government Relationship Before and After Decentralisation

Source: Developed by author

The significant point highlighted here is that Law 22/1999 removed the traditional oversight role of regional government over local affairs. Silver (2003) notes that the only link remaining between local and national government was the requirement that all decisions made by local policymakers were to be reported to the Ministry of Home Affairs (MoHA).

The way in which Law No. 22/1999 caused a major re-organisation of the public service delivery mechanism in Indonesia is discussed in Alm et al. (2001) and Basri (2009). They describe that prior to the 2001 decentralisation, national government and its ministries had deconcentrated departments (*kantor wilayah or kanwil*) at the provincial level. Sometimes, the *kanwil* also had a branch at the local level called a *kantor department (or kandep)*. The province had its own regional planning and development body and various autonomous ‘decentralised’ departments under its own control. The latter dealt with their own revenues and public service

delivery: education and culture, health, public works, traffic management, agriculture, livestock, fisheries, forestry, plantations, industry, social welfare, labour and tourism. At the same time, delivery of these public services was also managed by central government through the deconcentrated *kanwil*.

Like provinces, districts/municipalities had an autonomous ‘decentralised’ department responsible for their own revenues, and departments in charge of services such as health and public works. The size and location of each local government determined the range of those departments. Law 22/1999, however, shifted the responsibility over all deconcentrated central government ministry offices at the province and the district/municipality levels to the respective provincial government. Figure 5.2 illustrates the organisation of public service delivery in Indonesia prior to the 2001 decentralisation; organisation after the 2001 decentralisation is presented in Figure 5.3 below.

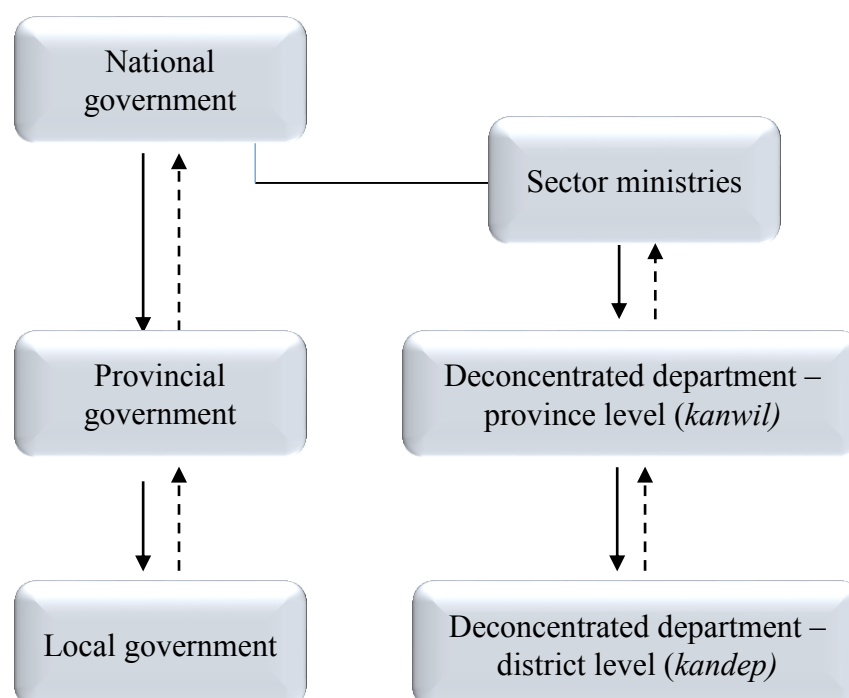


Figure 5.2 Organisation of Public Service Delivery (Before Decentralisation)

Source: developed by author

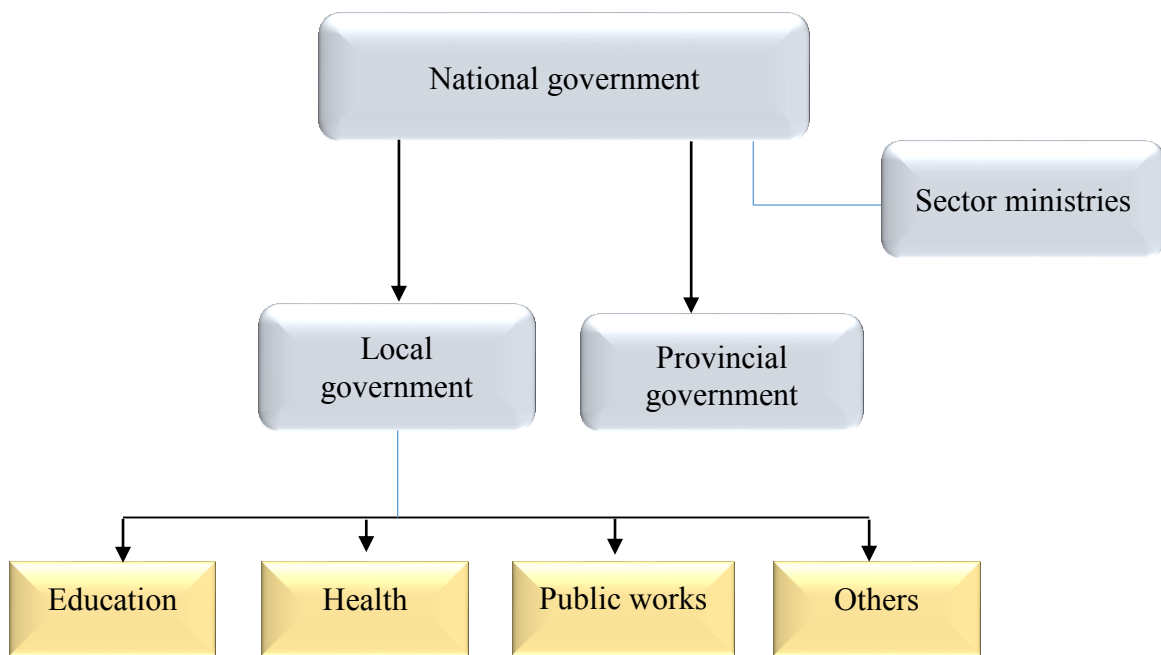


Figure 5.3 Organisation of Public Service Delivery (After Decentralisation)
 Source: developed by author, informed by law 22/1999

With very limited areas under its direct control, national government had lost most of its power; at the same time, local government gained substantive authority (Basri, 2009; Rasyid, 2004). Although the use of the term federalism is uncommon (politically sensitive) in Indonesia, in reality, according to Basri (2009), Indonesia has entered an era of *federalism*⁶³. The atmosphere of federalism became stronger with the two provinces Papua and Aceh being given special Regional Autonomy Laws (in 2001 for Papua and Aceh) which are different from Law 22/1999. In Aceh, the specificity of regional autonomy is even applied to the most basic area such as the application of Syaria Law (Islamic Law). These two provinces may trigger other provinces to demand the same right since every province has its own uniqueness⁶⁴.

⁶³ In simple terms, according to Basri (2009) a country adopts federalism when most responsibilities have come under local government and only a very small portion of responsibilities and functions remain in the hand of the national government. However, the use of the term ‘federalism’ is ‘taboo’ in Indonesia and other terms (such as ‘wide regional autonomy’) are used in preference. In essence however, this means federalism.

⁶⁴ Jogjakarta is the next province likely to demand special regional autonomy, given its historical background and current designation as a special region.

Political consideration of devolving power to local government

The fact that Law 22/1999 granted a huge amount of power and responsibility to local government rather than provincial government indicated the existence of a strong political consideration. This is described in Hofman and Kaiser (2004) which suggest that devolving power to local rather than regional government was the strategy of President Habibie to ensure military support for decentralisation policy. Since gaining independence from the Dutch in 1945, regional government had been the centre of regional unrest. In the 1950s for instance, outbreaks occurred in Sumatera, West Java and Sulawesi. Then, at the time Law No. 22/1999 was drafted, Aceh and Papua were in conflict with national government, demanding independence. All these regions are provinces (regional government). Given this history, it would be hard to gain support from the military for decentralisation, if power was to be devolved to regional government. In other words, the military would support decentralisation policy if national government could ensure that regional unrest would not ensue.

For this reason, as stated by Hofman and Kaiser (2004), President Habibie established a plan to remove provinces totally from the Indonesian structure of governance, and then devolve power to local government. By doing so, the chance for regional unrest would be reduced. The rationale was that local government is much smaller in terms of its size in comparison to regional government, and its capacity is more limited. With such characteristics, even if the scale of power to be devolved to them was huge, they would not become sufficiently empowered to demand independence from Jakarta. If however such a scale of power toward devolved to the provinces, the opposite might occur. Moreover, controlling districts/municipalities would thus be easier than controlling the powerful provinces. Thus, this political reasoning was given more weight than economic considerations, and decentralisation to local government level ensued. This explanation is consistent with Devas and Delay (2006)

who suggest that decentralisation in Indonesia was driven more by a response to potential or actual regional conflict and the fear of the secession of resource-rich regions:

Yet this [decentralisation] has not been driven so much by democratic demands from the local level as the combination of local elite interests and fear within the central government of secession by the resource-rich regions (p. 678).

Despite Habibie's intention to eliminate provinces entirely from the governance structure of Indonesia, by chance provinces survived. According to Hofman and Kaiser (2004), by the time the two laws of decentralisation (Law 22/1999 and Law No. 25/1999) were at first-draft stage, new election laws were also completed, in December 1999. The new election laws detailed how the provincial parliament and governor were to be elected. These new laws imply that the plan to remove provinces from the governance structure of Indonesia could not be carried out. This is reflected from statement by Hofman and Kaiser (2004), that 'since one could not have a parliament and head of region without a government, it was decided to put the provinces back in, albeit with a limited role' (p.18). Thus, the completion of the new elections law was the circumstance that eventually saved provinces.

Local governance

The new nature of the relationship between the national and local government brought about by the 2001 decentralisation had a number of consequences. Rasyid (2004) suggests that under Law 22/1999, local government became more independent in

1. electing the district heads/mayors;
2. promoting local interests;
3. developing local institutions;
4. initiating local policies;
5. managing financial resources; and

6. mobilizing support of its own communities.

In terms of electing district head/mayors, they were elected by members of the local parliament (rather than being appointed by national government); they were thus no longer responsible to the governor as head of the province. This situation was applied until replacement of the 1999 law with the new law on decentralisation in 2004 that will be discussed later in the section 5.4. Moreover, Basri (2009) adds that If there is any problem with a local ordinance, the local people could bring a case to court and the court has the right to terminate it. Thus, the autonomy for local government given by the 1999 law, was characterised by the absent of the national government interference (Basri, 2009).

Law 22/1999 also granted extremely strong power to local parliaments. This power came from (i) the right to choose the mayor/district head (elected by local parliament members), (ii) the right to impeach the mayor/district head by rejecting the accountability report written about them, and (iii) the right to approve or not the local budget proposal. These three main sources of power were been utilised by local parliaments to engage with the money politics for the benefit of an individual or their party (Hofman and Kaiser, 2004; Basri, 2009). For example, the mayor/district head often had to bribe members of the local parliament to obtain approval for the local budget proposal. The mayor/district head tended to satisfy the requirements of the local parliament because of the fear of their accountability report being rejected. In practice, this means that the mayor/district head placed the individual or group interests of local parliament members above the interests of the people they are supposed to represent.

Intergovernmental fiscal system

In terms of finance, there was inconsistency between the law on decentralisation (Law 22/1999) and the law on fiscal balance between central government and local government (Law 25/1999). Law 22/1999 granted very wide authority to local government. At the same time, Law 25/1999 gave no authority to local government to manage taxes; these remained under the authority of national government. This contradiction has been criticised in the literature (Basri, 2009; Miller, 2013). Law 25/1999 only benefited regions with rich natural resources, and ignored the rest. There was thus a huge gap between decentralisation (in term of responsibility) and semi-decentralisation (in terms of finance). Alm et al. (2001) and Basri (2009) suggest that in unified Indonesia, the fiscal system was the most centralised in the world causing its regions to be highly financially dependent on national government.

The four main sources of local government income under decentralisation are (i) original local income, (ii) transfers, (iii) loans, and (iv) other legal revenue. Original local incomes come from local government efforts (including local taxes, charges, and dividends received from companies owned by local government) and other sources that are legal according to regulations. Basri (2009) points out that the ability of local government to earn original local income was, on average, low. The evidence shown in Basri (2009) suggests that until 2002, local government earned only an average of 12.5 per cent of local income compared to total revenue. The second source of revenue – that is, transfers from national government – can be divided into three components: revenue sharing, general allocation fund, specific allocation fund. Revenue sharing usually comes from taxes on land and buildings and natural resources. For most of districts/municipalities, transfer constitutes the largest proportion of local government revenue.

5.3 Some consequences of the 2001 decentralisation

5.3.1 Accountability and the emergence of small kings

As discussed earlier, Law 22/1999 indicated there was to be no hierarchical relationship between local and provincial government. It also has been mentioned earlier that the role of provinces remained unclear under Law 22/1999. Moreover, as Silver (2003) states that the 1999 law also failed ‘to specify exactly what role of the central government would exercise in reviewing local decisions, although the assumption among local officials was that they now possessed unlimited discretion ...’ (p.426). District heads/mayors should indeed be accountable to local parliaments. However, the considerably low capacity of local parliament members in comparison to local government bureaucrats, as also underlined by (Rasyid, 2004), limits their ability to exercise control over local government. The strong temptation for local parliaments to use money politics (as discussed earlier), also led many to compromise their role as a legislative body. Given that district heads/mayors had a huge authority (and at the same time there was no control over them) many acted as *raja kecil* (‘small kings’) who were neither accountable to national government or to their local electorates (Hofman and Kaiser, 2004; Basri, 2009). The three conditions explaining this phenomenon are illustrated in Figure 5.4 below.

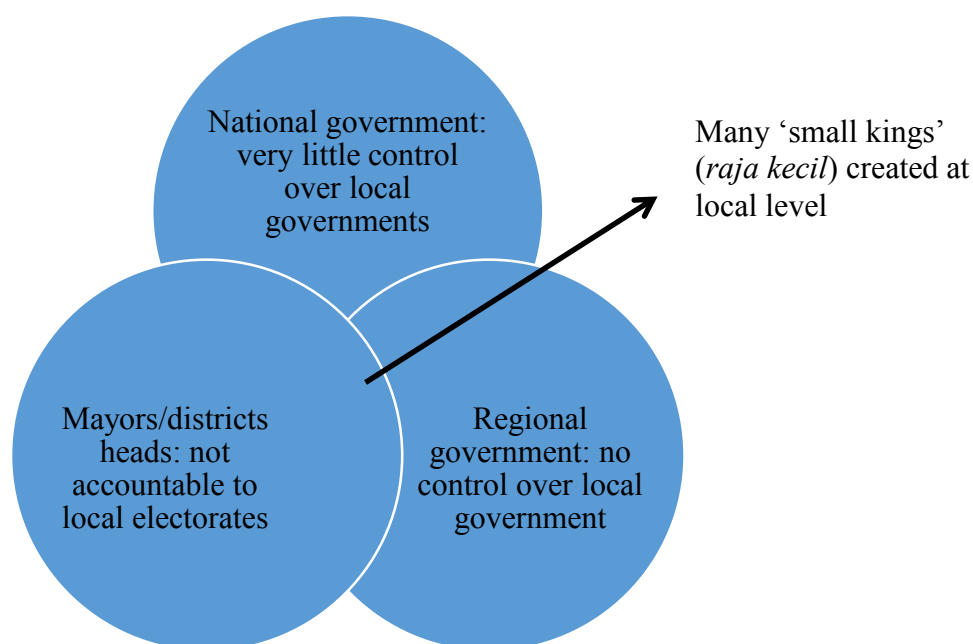


Figure 5.4 Three Conditions of Early Decentralisation Creating the 'Small King' Phenomenon
Source: Developed by author

5.3.2 Intense interest in setting-up new local governments

After decentralisation, regions also show intense interest in the setting up of new districts/municipalities. This can be done in one of two ways: either by splitting up an already-existing district/municipality into two or by establishing a completely new one (Fitriani et al., 2005). Table 5.1 shows the number of new districts/municipalities established in between 1998 and 2004.

Period	Number of districts/municipality established
1998-2001	44
2002	12
2003	22
2004	40
Total	118

Table 5.1 Establishment of New Districts/Municipalities (1998-2004)
Source: Informed by Fitriani et al.(2005)

As Table 5.1 shows, there were 118 new districts/municipalities in total just after four years of decentralisation. Apart from these, Fitriani et al. (2005) also note that parliament had approved 17 more proposals to create new districts/municipalities during 2004.

Fitriani et al. (2005) suggest a number of reasons for the high demand in setting up districts/municipalities. These include ‘a rich mix of local grievances, ranging from neglect to geographical isolation, leadership ambitions and claims over natural resources revenues’ (p.64). One incentive for local elites to mobilise local citizens to demand new districts/municipalities was the opportunity this presented to those elites to occupy top positions. A new district/municipality needs a mayor or district head, bureaucrats, and members of parliament (a new municipality needs its own parliament). These provide new ‘job opportunities’ for local elites. Moreover, a new district/municipality is provided with funding by the government for three years and the amount is substantive, covering costs needed to provide essential facilities and equipment for a new local government, such as offices, local parliament, the mayor’s residence and vehicles. In some cases also, the establishment of a new district/municipality was triggered by ethnic or religious conflict. More specifically, where two religions were being practiced in one district/municipality, local citizens tended to demand splitting the district along religious lines. Similarly, in some cases where there were two ethnic groups in one district, some citizens from the same ethnic group demanded separation.

The extremely high interest in setting-up new districts and municipalities at regional level (which occurred particularly in regions outside Java) reached such a level that national government was concerned that this might in the long term pose a threat to the unity of the country. According to Fitriani et al. (2005), ‘some regions experienced multiple divisions over a period of several years’ (Fitriani et al., 2005, p. 63). As an example, Figure 5.5 demonstrates the process of splitting up the district of Riau Islands into five new districts over the course of

five years (1999-2004). In 1999, the district was divided into three new districts: Natuna district, Karimun district and Batam municipality. Then, in 2001 it was divided again to create Tanjung Pinang district, and the last division of Riau Islands was in 2004, with the establishment of Lingga district (see Figure 5.5).

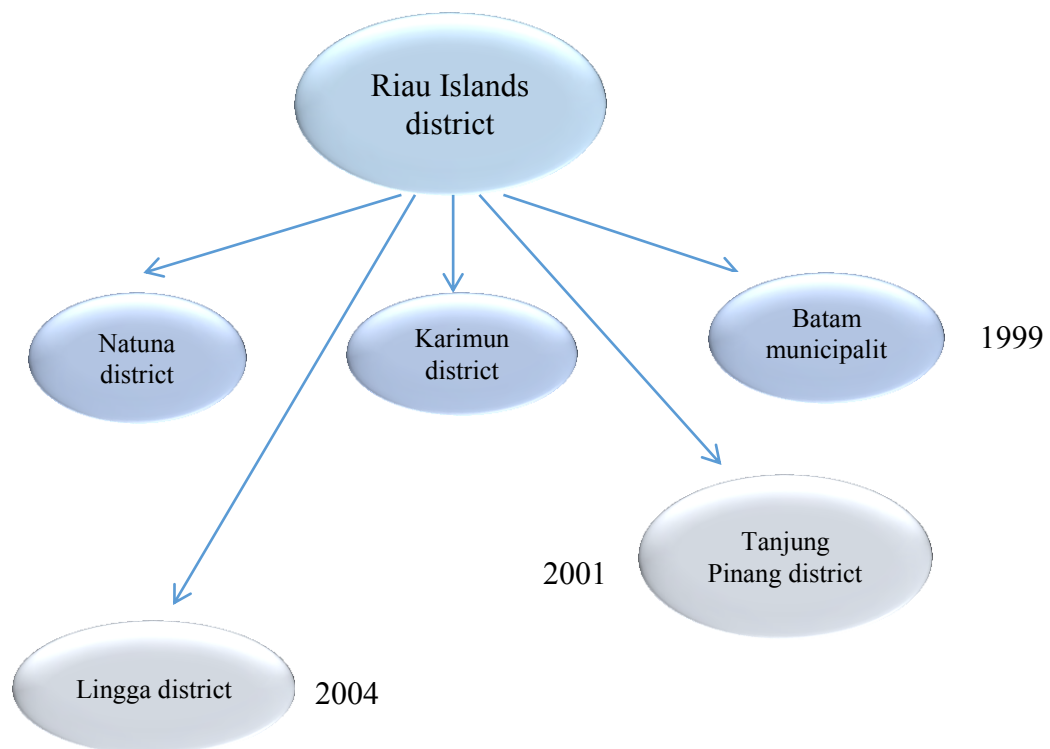


Figure 5.5 Proliferation of Riau Islands District (1999-2004)
Source: Informed by Fitriani et al. (2005)

Basri (2009) suggests that there were indications that some regions were benefiting from decentralisation by adapting development programmes to local conditions. However, other regions experienced the deterioration of public services after decentralisation in terms of the quality and quantity. Many new regions appeared not to develop but rather to become a new burden for national government. In general, the economic growth of new regions tended to be lower than that of the region which existed before it.

5.3.3 High costs of regional economy

The phenomenon of the rise of small kings, compounded by the weakness of Law 25/1999, led local government to seek for possible ways to raise local income. Discussion in point 5.2.2 has highlighted the issue of inconsistency of concept decentralisation in Indonesia introduced in 2001: in one side, local government was granted very wide authority (by the law 22/1999). In another side, Law 25/1999 gave no authority (i.e. responsibility to delivery all ranges of public services to local people) for local government to manage taxes. Law 25/1999 caused regions to be highly financially dependent on the national government. To solve the problem, local government tried to search alternatives that could bring incomes for local government; for example, through issuing different local ordinance on charges. Unfortunately, sometimes, the charges set in the local ordinances could bring negative implications to the investment climate in general.

In fact, the huge number of local ordinances issued soon after decentralisation in 2001 was one of the most problematic implications of decentralisation in Indonesia (World Bank, 2003). The World Bank (2003) is supported in this by Basri (2009) which notes that local ordinances were often issued in a way which was inconsistent with higher regulations, contradictive of each other, overlapping, or counterproductive. For example, the issue was often driven purely by the desire to boost local income to the greatest extent possible, without consideration for the feasibility of its implementation and impact on the regional economy as a whole.

Many local ordinances enacted since 2000-2005 related to new local taxes and local charges designed to increase local government's own revenue sources (LPEM-FEUI, 2005). Matsui (2005) suggests that the local ordinances issued at this early stage of decentralisation were heavily criticised as hampering 'the revitalization of regional economic activities and creating high-costs economic structures' (p. 179). Moreover, Matsui (2005) suggests that between two

and ten per cent of company production costs operating at regional level comprised expenses for the provision of services to local government bureaucrats.

Basri (2009) provides other examples of the negative implications of decentralisation to the regional economy. For example, in West Sumatera, the provincial government issued a licence to Company X (a local company) to carry out coal exploration in a certain location. At the same time however, national government had already granted an exploration licence to Company Y in the same location. It was later discovered that the owner of Company X was the son of the West Sumatera governor. In Riau, local elites mobilised local citizens to take over an oil installation owned by Pertamina (a state-owned oil company) and Caltex (an American oil company), stating that it was in the interest of local people to do so. What happened in both West Sumatera and Riau provinces reflected the weak protection of property rights which is inconsistent both with Washington Consensus and with neoliberal principles, as discussed in chapter 3 (section 3.4).

In terms of industry growth, according to Basri (2009), the data shows that this has declined since decentralisation. Problematic local ordinances not only discouraged investors from opening new business but also encouraged them to close their businesses. The implication is that local government did not issue market friendly local regulations. These problematic local ordinances had implications for the growth of industry nationally. During the period 1999-2000, growth was 0.47 per cent; for the period 2000-2001 the number of industries decreased 3.51 per cent. Thus, growth was negative after decentralisation. According to Rasyid (2004) the problematic local ordinances were not entirely the fault of regions, but also a part of the failure of the national government to equip decentralisation policy with adequate implementing

regulations⁶⁵. Rasyid (2004) states that the inadequacy of these regulations was due to the reluctance of some sector ministries to hand over power to local government (and thus intentionally delayed producing the implementing regulations). This implies that devolving power to local government was a threat to the interests of sector ministries.

5.3.4 Local government becomes active economic actor

As Silver (2003) mentioned, decentralisation took a different direction from that expected by the international donor agencies which supported it at the beginning. Matsui (2005) supports Silver's (2003) argument specifically in terms of regional economy, suggesting that after decentralisation local government became an active economic actor. Some districts with rich natural resources (e.g. Kutai Kartanegara) initiated large-scale projects without involving the participation of the private sector. Others have established and operated airline companies; for example, the Government of Riau is the main shareholder of Riau Airlines. The tendency of local government to become an active economic actor soon after decentralisation implies that the manner in which Indonesian local government acted was inconsistent with the fourth core principle of neoliberalism, that is, that the role of the state in the economy should be kept to a minimum. This principle states that government should limit its function to ensuring how the market should function and not become an economic actor itself (see discussion, chapter 4, 4.1).

⁶⁵According to Ryaas Rasyid (who led the drafting of the decentralisation law), at least 197 presidential decrees were needed to support the implementation of decentralisation policy, which should have been passed on by November 2000. However, most of these decrees failed to come into existence (Rasyid, 2004).

To sum up, there are two broad categories of implication of the 2001 decentralisation:

- (1) the threat of the disintegration of Indonesia as a nation (emergence of ‘small kings’ and extremely high interest in setting up new local government or regional government, and
- (2) a potential threat to neoliberal economy principles, worrying for international donors (as the high costs of economy and local government became an active economic actors).

Basri (2009) notes two further implications: environmental degradation (i.e. deforestation) and decentralised corruption. According to Basri (2009), deforestation in Indonesia before decentralisation was around 1.5 million hectares per year; this increased dramatically to 2.25 million hectares per year afterwards. If this had continued, Indonesia was predicted to lose all of its forest within two decades. Environmental degradation in Indonesia is a concern; serious deforestation could affect the global climate as Indonesia is home to one-third of the world tropical rain forest (UN-REDD, n.d). Hence, in terms of corruption, Basri (2009) suggests that financial decentralisation was followed by decentralised corruption which now became centred around the local legislative and executive. Decentralised corruption is barrier to an effective local budget. The implications of radical decentralisation discussed in this section are summarised in Figure 5.6 below.

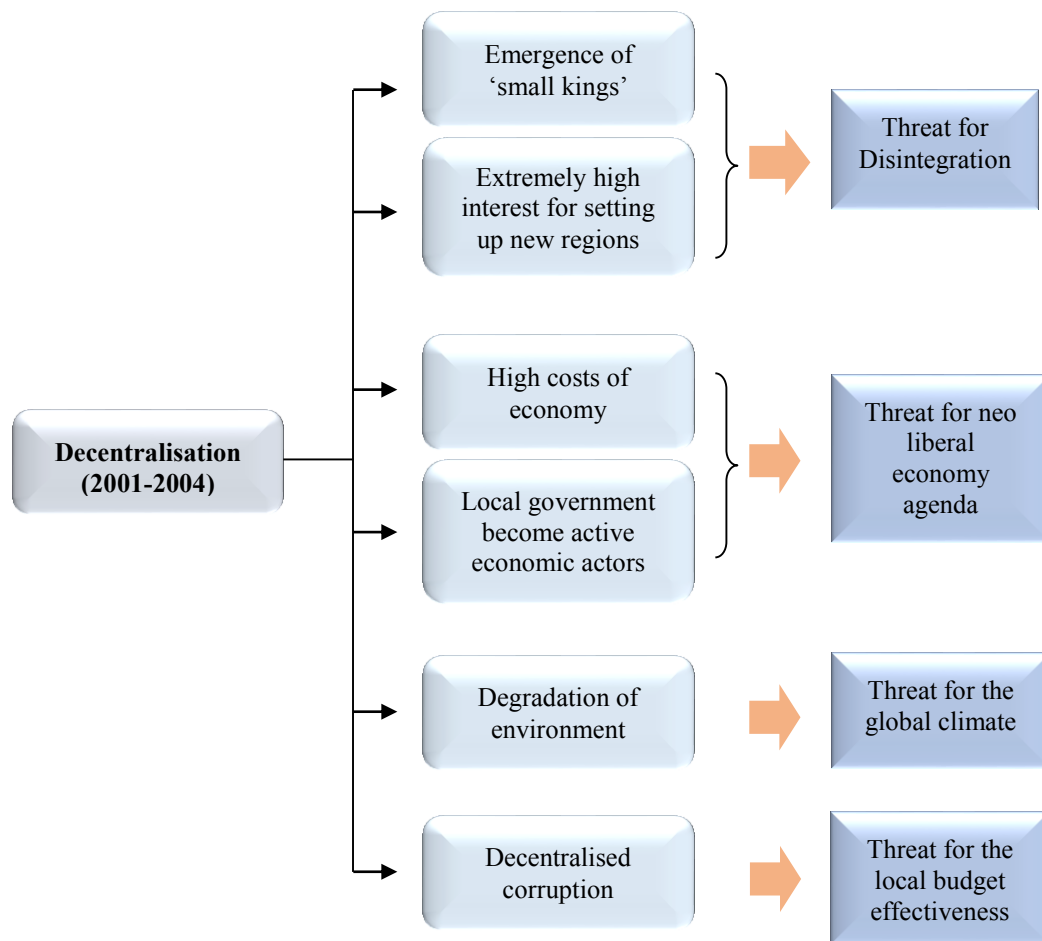


Figure 5.6 Negative Implications of the 2001 Decentralisation
Source: Developed by author

5.4 Redefinition of decentralisation in 2004

As mentioned above, international donors and government leaders responded the 1999 law with ‘worried calls for retrenchment and even recentralisation’ (see quotation from Silver, 2003, page 174). Some negative consequences of the 2001 decentralisation discussed in the previous section affirm these worries, and were associated with serious flaws in the 1999 law. In responding to these flaws, the law was replaced in 2004 (by Law 32/2004), and Law 25/1999 (as companion to Law 22/1999) was replaced by Law 33/2004. One of most important changes to Law 32/2004 relates to the introduction of the direct election system for governors and

mayors/districts heads. This change was aimed at limiting local parliament power which had often been misused. More specifically, under the 2004 legislation, when a mayor or district head is directly elected by the local electorate, they can no longer be impeached by the local parliament. With this power removed, it is expected that the practice of money politics will decrease and mayor/district head can concentrate on their work.

Law 32/2004 also returned to provincial government its position as national government representative at regional level. This change was aimed to allow regional government to re-exercise its traditional oversight of local affairs. For example, post-2004 the local government budget proposal now needed to be reviewed by the governor (who had the power to delete items he deems unnecessary) before it could be approved by local parliament. This reduced the absolute power of local parliament which they had enjoyed under Law 22/1999. The fundamental change provided by Law 32/2004 is in terms of what is devolved to local government. Under Law 22/1999, national government devolved power or authority to local government. Law 32/2004 however states that the national government delegates authority and responsibility to local government. This change, from 'transfer of power' to 'delegation of authority and responsibility,' is fundamental. The latter implies that control is still in the hand of national government, which is very different from the concept of decentralisation according to Law 22/1999, which implies the opposite.

In relation to the direct election of mayors, districts heads and governors, Basri (2009) comments that although this mechanism had been long expected, the readiness of local elites and local people was still limited and that problems surrounding direct elections emerged as a result. For example, horizontal conflict emerged after direct election, and could sometimes be massive in scale (such as in North Maluku province). Horizontal conflict here refers to conflict between local elites which can lead to physical conflict involving their supporters in a large

scale. North Maluku has been given as an example because the conflict between the candidates participated in the direct election of 2007-2008 caused a large scale horizontal conflict and which was known as a tragic conflict that have ever happened since the decentralisation reform and direct election system introduced in Indonesia (Abbas, 2011). National government anticipated this happening by including a clause in the regulation which stated ‘in case there is conflict after direct election, the solution is in the hand of the national government.’

Direct election reform has also been connected to increased corruption (Faiz, 2011) which suggests that the very high costs of election campaigning in Indonesia changes the orientation of the mayors and districts heads once in office, from achieving the vision and mission of their campaign to finding a way to regain the ‘investment’ they made as quickly as possible, frequently by misusing the local budget:

The government assumes that direct regional elections are prone to corruption as elected candidates will take advantage of any opportunity to regain any of their money spent during their campaigns. One of their ways to get this money back is apparently by misusing the regional budget (Faiz, 2011).

5.5 Conclusion

The 2001 decentralisation policy implemented in Indonesia has some extreme characteristics. Firstly, government took what experts call the ‘big bang’ approach instead of one which is gradual, the implication being that it happened suddenly, all at once and on a massive scale. Secondly, Law 22/1999 granted unprecedented power and authority to local rather than regional government, which in the view of an expert, made decentralisation in Indonesian a radical one (Silver, 2003). As a result, Law 22/1999 transformed the organisation of public services delivery and intergovernmental relations in Indonesia (Alm et al., 2001). The 2001 decentralisation provided evidence for Devas and Delay’s (2006) argument that the

characteristics of decentralisation implemented in any particular country are influenced by the decision to decentralise. As decentralisation in Indonesia was not due to economic reasons, efficiency and effectiveness of public service delivery was not the first priority of the 2001 decentralisation policy. The political side of the process caused decentralisation to be granted to local not provincial government (which would have had better capacity to implement decentralisation). Given its characteristics, the 2001 decentralisation had some negative implications, providing as it did 1) a threat to the unity of the nation, 2) a threat to neoliberal policies in Indonesia 3) a threat to the environment, and 4) a barrier to the effectiveness of local budgets. As a result of the many problems which emerged, Indonesia decentralisation was re-conceptualised through a new law (Law 32/2004), the aim of which was to overcome weaknesses in the earlier decentralisation law. Finally, the experience of the first wave of decentralisation (2001-02) seems to prove the argument of Shah and Thompson (2004) which says that for a country with weak capacity such as Indonesia, the more appropriate approach to decentralisation is the gradualist approach.

CHAPTER 6

PROCESS OF AND FACTORS INFLUENCING DESIGN OF THE EKPPD

6.1 Introduction

As discussed in Chapter 2, performance measurement systems can be divided into three main phases: design, implementation and use. Some factors exert an influence on all phases, others have a dominant influence on a particular phase. The first phase of performance measurement systems (design) is critical, as design influences the next two phases: implementation and use. There thus needs to be sufficient time, adequate resources and involvement of all stakeholders invested in the process. In Chapter 3, I discussed the connection between performance measurement in developing economies with the role of international donor agencies and their potential interest in the introduction of performance measurement.

This chapter presents the findings of this study which relate to the first phase of particular a performance measurement system, namely the design phase of the EKPPD system. First of all, the establishment of the new performance measurement initiative in Indonesia has been mainly driven by the intention to change a) the nature of decentralisation in the country (recentralisation), and b) the influence of international donor agencies which can be connected to two things: to protect neoliberal policies in Indonesia, and the achievement of MDG targets. International donor agencies, such as the World Bank, the CIDA, and the ADB have each played a significant role in the process establishing the new performance measurement initiative in Indonesia. The EKPPD system focuses on the governance and services provided by local government in the context of decentralisation. The system design is complex but only

partially captures the dimensions of performance (mainly outputs). Some contingency factors influenced the design phase that include political considerations, the direct election system, the stakeholders' support and budget, metric difficulties and the drivers. Finally, the findings of this study show a persistent conflict of interests among a range of stakeholders (including the national government and international donors supporting the process, sectoral ministries and MoHA as the ministry leading the establishment of the initiative, and the national government and stakeholders at local government level).

This chapter begins with a discussion of the new performance measurement initiative introduced in Indonesia in 2008. The section focuses on exploring the driving forces of the initiative; thus the discussion in this section addresses the first research question. The next section discusses the system design of the measurement system used to evaluate local government performance in Indonesia and thereby addresses the second research question. The discussion then moves on to contingency factors that influence the design phase. The discussion in this section addresses partly the fifth research question. The last section offers some conclusions.

6.2 The New Performance Measurement Initiative

6.2.1 Normative and rational arguments of the initiative

In an interview with one of the key informants involved in drafting the regulation on the new performance measurement initiative in Indonesia (INF2/NG), two arguments were given as motivating the initiative: a 'rational argument' and a 'normative argument.' The rational argument was connected to the government's interest in tracking and monitoring the results achieved by its decentralisation policy; the normative argument referred to Law 32/2004 on decentralisation, Article 6:

- 1) Regions can be merged or abolished when they are incapable of running regional autonomy.
- 2) Merger or abolition of autonomous regions is carried out after local government governance evaluation.
- 3) The evaluation as mentioned in versus (2) above should be further regulated by the Government Regulation.

As INF2/NG pointed out, versus (3), Article 6 of Law 32/2004 provides a direct mandate for the Government of Indonesia to develop an instrument which can be used for the purpose of evaluating local government performance in implementing the decentralisation policy. INF2/NG was supported by another key informant (INF6/NG). The interviews with INF1/NG and INF3/NG particularly highlighted the normative argument – the requirement of the law 32/2004.

The normative argument used to justify the new performance measurement initiative in Indonesia, means that the initiative is intended as a technical instrument to merge or abolish regions incapable of running the decentralisation policy. In Chapter 5, I mentioned the high degree of interest on the part of regions in Indonesia in setting up a new district/municipality as one of the negative implications of the decentralisation policy. The dramatic increase in the number of new autonomous regions in Indonesia post-decentralisation reached a worrying level for the national government in that the number was becoming uncontrollable. From the perspective of the national government, the regions therefore needed to be reorganised. Through merging or abolishing underperforming regions, the national government expects that the number of districts/municipalities and provinces could be brought under control. The intended use of performance measurement for merging or abolishing an autonomous region seems to be a new finding in the literature. The list of potential uses of performance measurement offered by Van Dooren et al. (2010) enumerating no less than 44 items, for example, does not include the merger or abolition of an autonomous region in a decentralised country.

The re-organisation of autonomous regions in the context of wide decentralisation does not imply a simple meaning. More specifically, I argue that the new performance measurement initiative was intended as technical instrument for recentralisation. The reason for this argument relates to the background of why the law 22/1999 was replaced with the law 32/2004 as discussed in chapter 5. In essence, the law 32/2004 itself was intended to change the nature of decentralisation in Indonesia (recentralisation). As the legal basis of the new performance measurement initiative, law 32/2004 contains the spirit of recentralisation, and means that the initiative also embodies a similar objective (recentralisation) (see illustration below).

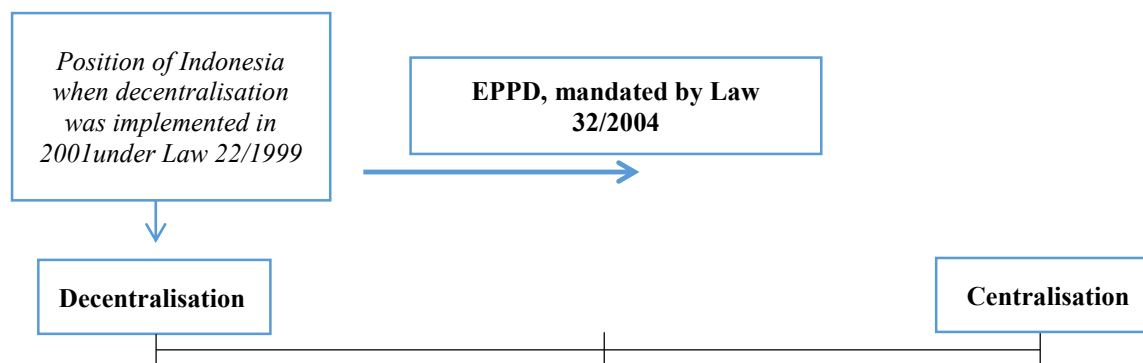


Figure 6.1 The New Performance Measurement Initiative and Decentralisation
Source: Developed by author, based on the interviews' results

In chapter 5, I discussed the redefinition of the concept of 'decentralisation' in Indonesia through the new law (Law 32/2004). I mentioned that the law introduced some fundamental changes such as 1) limiting local parliament power, 2) reinstating the provincial governments' position as the representative of the national government at regional level, which allows them to exercise its traditional oversight of local affairs (e.g. local budget proposals should be reviewed by the governor first before being able to be approved by the local parliament, which reduces the absolute power of the local parliament), and 3) decentralisation no longer means 'transfer of power' but only 'delegation of rights and responsibilities'. The last point is

fundamental, as it implies that the new law on decentralisation contain a spirit of recentralisation.

This argument was supported by interviews with two key informants who were also apparently involved in the draft of Law 32/2004. INF1/NG, for example, stated, “Many people consider the Law 32/2004 emasculates decentralisation... that is true”. Hence, another key informant stated, “To understand why the government needs to evaluate how well local government perform under decentralisation, we need first to understand what has been decentralised [according to the law 32/2004]? ...the President delegates ‘functions’ to local government...” (INF6/NF). The statement from INF1/NG is very clear. The key word in the statement of INF6/NG is ‘functions’: delegation of functions is different from ‘transfer of power.’

The rational argument mentioned by the INF2/NG refers to the principal-agency perspective:

...when rights and responsibilities have been given to them [districts/municipalities], it is rational to question how well rights and responsibilities have been exercised.

The use of principal-agency theory to justify the initiative indicates the government’s intention to exert control over local government (to establish an accountability relationship). However, the principal-agency perspective is inadequate to explain the accountability relationships involved in the context of a government with different tiers (Smith, 1990). Under the decentralisation system, the accountability lines of Indonesian local government are displayed in Figure 6.2 below. The rational argument put forward by the INF2/NG recognises only one line of accountability (that is, between national and local government) and ignores the other two accountability lines demonstrated in Figure 6.2. Simplifying those complex accountability relationships can be interpreted as part of an effort to achieve re-centralisation.

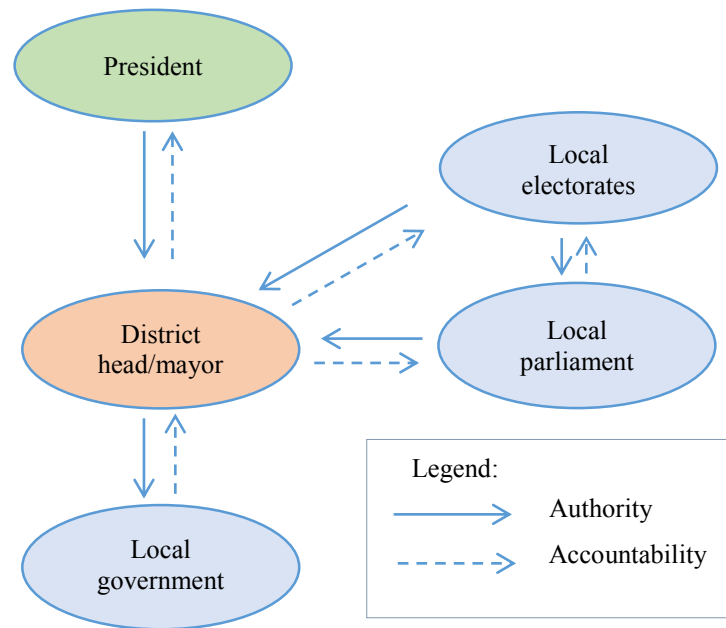


Figure 6.2 Accountability Relationships in the Context of Decentralisation in Indonesia
Source: Developed by author

6.2.2 Influence of international donor agencies

Demand generating activities

As discussed in chapter 3, the international donor agencies, the World Bank in particular, are key actors in promoting performance measurement in the context of developing economies. The new performance measurement initiative in Indonesia was also not free from the influence of international donor agencies. The interviews with INF2/NG and INF3/NG revealed that the new performance measurement initiative went through a long and difficult design process. INF2/NG described how efforts to obtain input from as many as stakeholders as possible were realised through various means such as seminars, symposia, workshops and even talk shows on television and radio. The first three aimed to gather feed-in from experts, academics and practitioners; talk shows were aimed at obtaining a response from citizens in general. These events were mainly sponsored by CIDA, who also assigned foreign and local experts to help the performance measurement design team to complete their tasks. INF2/NG acknowledged the involvement of the World Bank in the process of establishing the initiative, but not in

completing the process. According to him, the World Bank consultant insisted that the measurement framework developed and tested by the World Bank be adopted as the measurement system to track the decentralisation policy results in Indonesia.

INF2/NG also explained that this pressure to adopt the performance measurement system developed by the World Bank was considered incompatible with ‘the circumstances at that time.’ This referred to the fact that the Indonesian public had severely criticised many of the previous government’s policies which appeared to be designed merely to satisfy the request of international donor agencies without careful consideration as to whether the policies were applicable or feasible for implementation in the Indonesian context. INF2/NG himself perceived that the measurement framework should be drawn from the objectives of the decentralisation policy. As INF2/NG described, the arrogant behaviour of the World Bank’s consultant, who conflicted with him as the chair of the EPPD design team, resulting in a request for the consultant to withdraw from the team. This explains the less significant participation of the World Bank in the next process compared to the role of, for example, the CIDA and the ADB.

Analysis of World Bank documents, reports and related publications, however, revealed the important role played by the World Bank in relation to the early stage of the initiative. In fact, it was the World Bank which initiated discussion of the need to measure the results of decentralisation. In 2005, the World Bank, in cooperation with the MoHA, organised a two-day workshop (28-29 August) on the theme of ‘Strengthening Public Services in Decentralizing Indonesia: Approaches for Measuring Performance of Local Governments.’ The workshop discussed the vital role of local government in Indonesia in the decentralisation era. As most substantive power had been devolved to local government, ensuring the functioning of government means ensuring that local government exercises its new rights and responsibilities.

The key issue raised in the workshop was that Indonesia had no comprehensive performance measurement tool to monitor and evaluate how local government was performing its new tasks. The workshop concluded that the establishment of a comprehensive performance measurement system to measure results of decentralisation in Indonesia was crucial (see Fengler et al., 2005; Suparno, 2005a; b), and would be a manifestation of demand-generating activity undertaken by the World Bank for performance measurement in Indonesia (see discussion of the ECD concept in Chapter 3). The connection between the 2005 workshop and the establishment of the new performance measurement initiative (EPPD) is indicated by INF3/NG's statement:

The early discussion about the needs to measure local government's performance in implementing decentralisation policy went back to 2005. Since then we continued to search for a formula on how local government's performance should be measured... (Interview with INF3/NG on the 13rd December 2011)

The role of the World Bank was thus clearly crucial at the early stage of establishing the EPPD. Following the workshop, the World Bank showed serious commitment to developing a measurement framework to evaluate the performance of Indonesian local government in the context of decentralisation. This framework developed by the World Bank was devised using various assessment tools previously developed by different development partners, and was called the 'Local Government Performance Measurement' (LGPM). Measurement by the LGPM consists of four aspects: public financial management, fiscal performance, service delivery and investment climate (see Figure 6.3). The framework was tested in three districts: Solok, Biak-Numfor and Tangerang (World Bank, 2008). This is the measurement framework to which INF2/NG was referring to in the previous discussion.

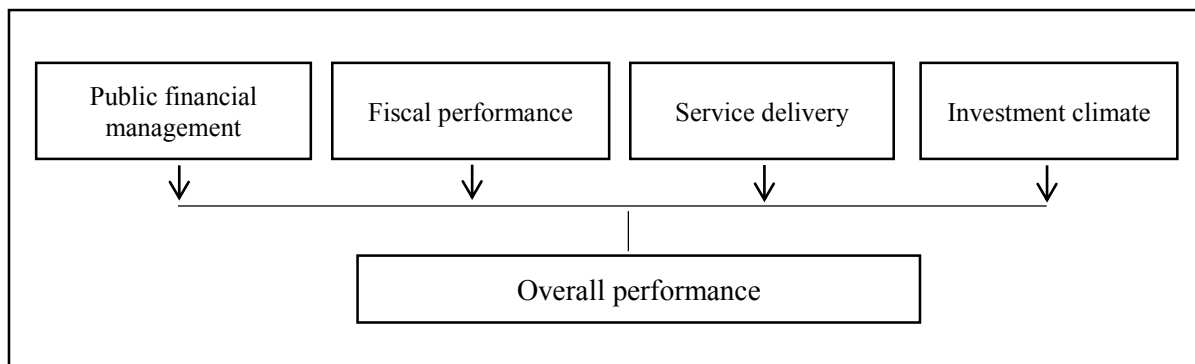


Figure 6.3 World Bank's LGPM Framework
Source: World Bank (2008)

The World Bank's Interest

The World Bank's interest in supporting the establishment of the new performance measurement initiative in Indonesia can be inferred from the LGPM framework. As shown in Figure 6.3 above, the fourth aspect of LPGM is investment climate. The significance of this is immense, with the number of indicators for this category being much higher than those of the other three measurement aspects (there are 43 indicators for measuring investment climate, 32 for measuring public financial management, 25 for measuring fiscal performance, and 33 for service delivery). The 43 investment climate indicators seem to be strongly tied to the characteristics of neo-liberal principles discussed in Chapter 3. More specifically, the indicators are closely connected to the role of government in ensuring that markets function.

As discussed in Chapter 5, among the unexpected implications of decentralisation policy in Indonesia was that local government acted in a way that was inconsistent with neo-liberal principles. Local government became an active economic actor and many regulations issued by local or regional governments tended to create difficulties for the private sector to grow and participate in regional economic development. By becoming an active economic actor, local government acted in a manner inconsistent with neoliberal principles (which stipulate that the role of government in the economy should be limited to ensuring how markets function, not becoming an active economic actor themselves). Also from a neoliberalist perspective (which

states that government should be the guardian of the market to ensure it functions well), regulations which are unsupportive of the private sector participating in regional economic activity are also inconsistent with the role of the government.

The new performance measurement initiative in Indonesia, however, has a different structure from the LGPM framework proposed by the World Bank. Precisely how they differ will be described and discussed further in the next sections. As indicated above, according to INF2/NG, the reason for the LGPM framework being rejected was that it was imposed by a World Bank consultant. Although the framework of the new performance measurement initiative has evolved to be different from that of LGPM, I argue that the World Bank's interest in measuring the performance of Indonesian local government still remains one of drivers for the initiative. As mentioned earlier, this interest could be related to the Bank wanting to protect neo-liberal policies in Indonesia. It was after all the World Bank which initiated the 2005 workshop in response to the negative implications of the early stage of decentralisation in Indonesia; as also mentioned earlier, the 2005 workshop was the beginning of the discussion about the need to measure the performance of Indonesian local government.

Global commitment

As discussed in Chapter 3, examples of recent global commitment relate, for example, to the achievement of MDG targets. With decentralisation, direct public service delivery becomes a responsibility of local government. At the same time, the majority of MDG targets relate to basic public services. For the Government of Indonesia, which has committed to achieving the MDGs by 2015 (UNDP Indonesia, 2010), tracking and monitoring the MDGs is difficult if there is no information system to facilitate it. From the international donor agencies' perspective, measuring the results of decentralisation in Indonesia was also seen to be

important as most of international donor agencies continue to direct development funding to local level as reflected from the quote below:

Regions are responsible for one-third of all government spending, and half of the development budget... The amount of local resources is likely to increase further...The share of the main central government transfer (DAU) will increase to 26 percent in 2007...On top of this, international donor agencies are increasingly channeling their support through local governments and provinces. (Fengler et al., 2005)

As discussed in chapter 3, under the new approach of development, the performance of international development agencies themselves is assessed through the effectiveness of development programmes.

In sum, the new performance measurement initiative introduced in Indonesia in 2008 was driven by (1) internal motives and (2) the influence of international donor agencies. The internal motives refer to normative and rational arguments. Both normative and rational arguments imply recentralisation through merging/abolishing regions incapable of implementing decentralisation policy (re-arranging local government in Indonesia) and re-imposing control over local government. The initiative was also influenced by the demand generating activities of the international donor agencies, the World Bank in particular. The World Bank's interest in the initiative can be seen through the notion of promoting and preserving neoliberalism. More specifically, the World Bank was interested in ensuring that decentralisation did not contradict neoliberal principles. Moreover, the influence of the international donor agencies also connects to global commitments such as achievement of MDG targets. Achievement of MDG targets, however, is also of interest to the Government of Indonesia as it is a global commitment to which Indonesia has also committed itself. Discussion at this point thus addresses the first research question, related to the drivers of the new performance measurement system introduced in Indonesia and the role played by the

international donor agencies and their interests. Discussion in this section is summarised in Figure 6.4 below.

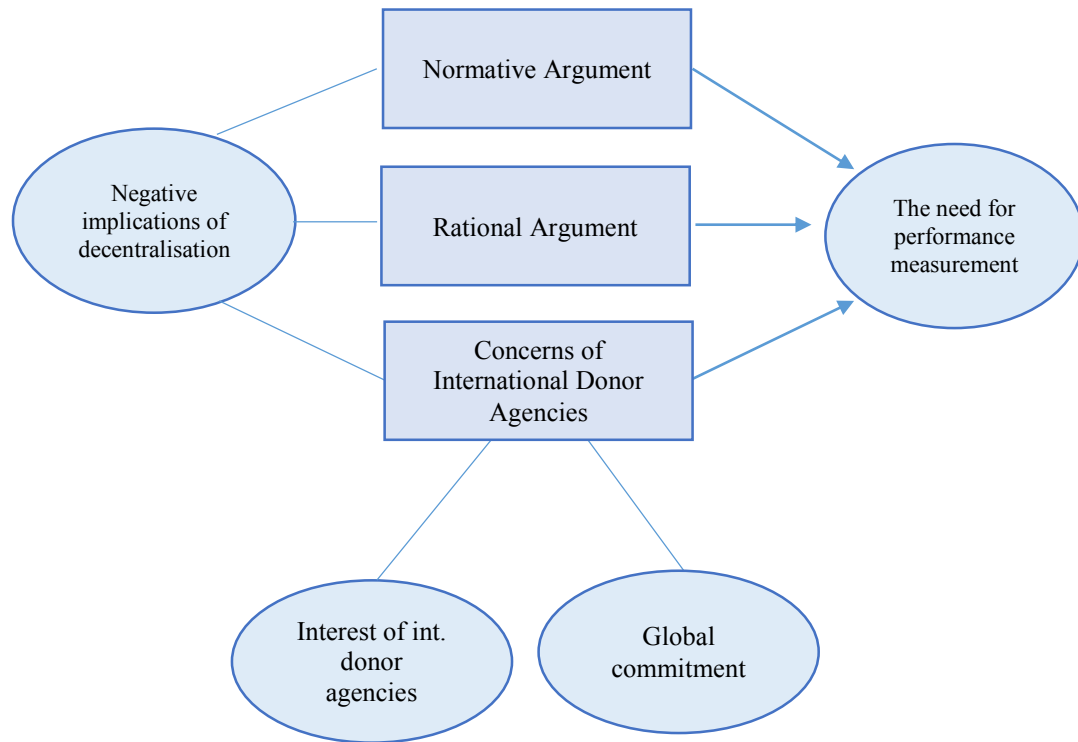


Figure 6.4 Drivers of the New Performance Measurement Initiative in Indonesia
Source: Developed by author, based on findings

6.3 System Design

As discussed in Chapter 2, the design phase of a performance measurement system deals with two main questions (1) what to measure and (2) how to measure. Figure 6.5 presents the detailed structure of the EKPPD system.

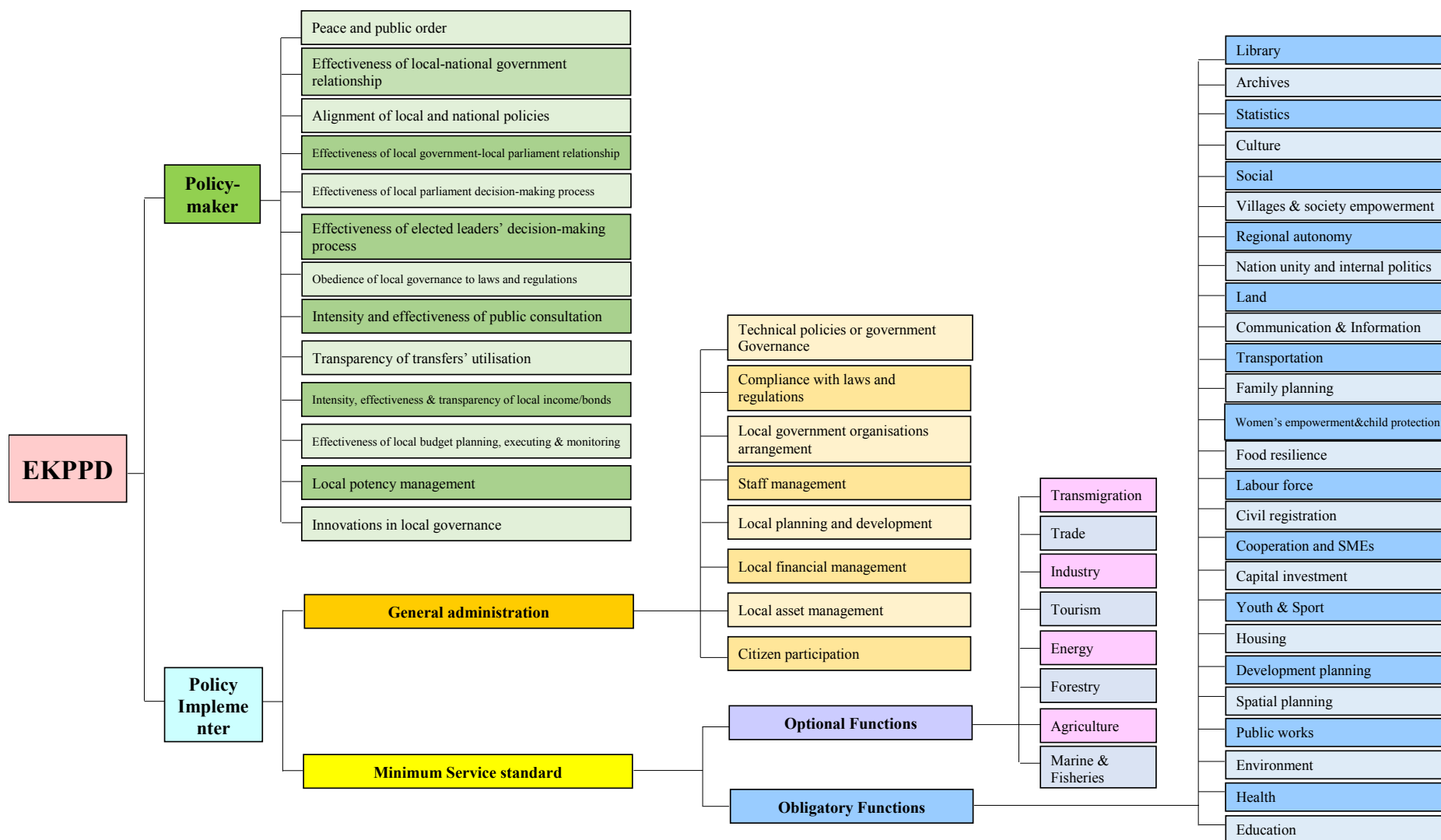


Figure 6.5 The EKPPD Structure

Source: Minister of Home Affairs Circulation Letter No. 120.04/2289/OTDA, 27 August 2009

6.3.1 Measurement targets

According to the EKPPD system, the performance of Indonesian local government is measured at two different levels: those of the policymaker and the policy implementer. Measurement at policymaker level is broken down into 13 measurement aspects. Differing slightly from measurement at policymaker level, measurement at the level of policy implementer is first classified into a) general administration, and b) the minimum service standard. General administration consists of 8 measurement aspects; the minimum service standard is further differentiated into those aspects operating for i) obligatory and ii) optional functions.

As described in the EKPPD manual, each measurement aspect is divided into several sub-aspects (each referred to in the manual as a ‘focus’), and finally each focus is defined according to one or more KPIs. In the category of policymaker there are a total of 13 measurement aspects, 37 focuses and 43 KPIs. For the policy implementer, the 8 measurement aspects of general administration are translated into 17 focuses and 21 KPIs. Meanwhile, the minimum service standard comprises obligatory functions (26 functions with 79 KPIs) and optional functions (8 functions with 15 KPIs). Overall, there are 158 KPIs in the EKPPD system (a full list of KPIs can be found in Appendix IV).

Firstly, the question of ‘what to measure’ can be connected to the structure of Indonesian local government. Each district/municipality in Indonesia has elected leaders (usually two people) and an elected representative assembly (the *Dewan Perwakilan Rakyat Daerah* or local parliament). The elected leaders for each district are termed district head and vice district head; in the municipality these are mayor and vice mayor. District and municipality are equivalent but represent different characteristics of local government in Indonesia. The district (*kabupaten*) represents the rural areas and the municipality (*kota*) represents the urban areas.

Local government then has so-called '*Satuan Perangkat Kerja Daerah*' (SKPD)⁶⁶ or working units. The number of working units within each district/municipality depends on the needs and size of the district/municipality. The district (or municipality) secretariat is responsible for assisting the district head (or mayor) in formulating and coordinating the working units, and is chaired by the general secretary. This secretariat consists of several departments (e.g. departments in charge of governance, law, policy formulation and organisational arrangements, and others).

The elected leaders and the local parliament are categorised as local policymakers, and thus become the first measurement target of the EKPPD system. Meanwhile, working units are responsible for implementing the policies made by the elected leaders and local parliaments, and thus become the second measurement target of the EKPPD system. Thus, the link between the EKPPD structure and the local government structure can be illustrated as follows:

⁶⁶ There are different types of SKPD (1) '*dinas*' or agencies (e.g. education agency and health agency) (2) '*badan*' or bodies (e.g. local planning and development body) (3) '*kantor*' or offices (e.g. fire fighter office) (4) inspectorate (6) hospitals (7) '*puskesmas*' or health centres and (8) '*kecamatan*' or sub-districts

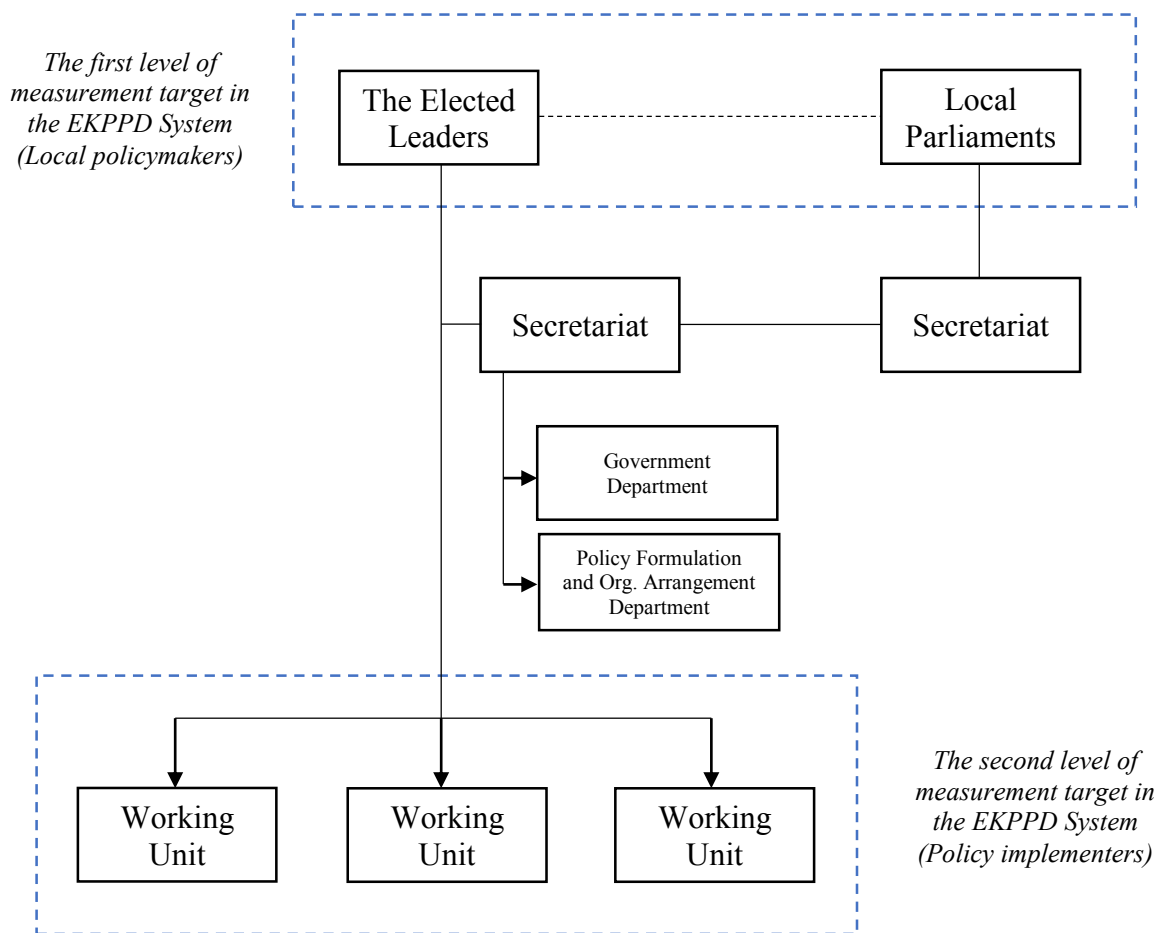


Figure 6.6 Linking the EKPPD and Local Government Structures

Source: Developed by author, based on observations

In terms of obligatory functions, the local government secretariat runs one of these, namely, the regional autonomy function. Similarly, sub-districts and the local parliament secretariat also operate the regional autonomy function. These three thus fall into the system category of policy implementers. As they run the same function, their performance report is presented in just one report. To sum up, the answer to the question of ‘what to measure’ can be taken as being local government-wide. Measurement covers both policymakers and policy implementers. This is different from the previous performance measurement initiative (LAKIP), which aims to measure only the performance of policy implementers.

As discussed in chapter 2, Bouckaert and Halligan (2008) differentiate between micro, meso and macro levels of performance (they term these distinction as ‘depth’ of performance). In relation to the *depth* of performance, there are two ways of looking at the EKPPD system. From the perspective of local government, it deals with performance at the macro level as measurement covers local government-wide. This design is different from LAKIP which is concerned with performance at the micro level (of a single organisation). From the perspective of the national government, however, the EKPPD measures the achievement of a specific policy field, namely decentralisation policy. Measuring performance of a specific policy field means measuring performance at the meso level.

Secondly, the structure of the EKPPD system implies that the EKPPD is aimed at measuring the performance of Indonesian local government in terms of two things: governance and government services. The concern about the governance aspect of local government is reflected in the 13 measurement aspects adopted at policymaker level. Local governance is assessed through the existence of various regulations on, for example, building licences, spatial planning, sex workers, public cleanliness, and public participation. The government is also interested in assessing the content of the regulations across regions. For example, the EKPPD requires information about ‘the length of processing time to issue a citizenship card’ and ‘the costs of obtaining the card’, as stated in the local regulations. The purpose is to compare this information across regions, with the best being a benchmark for other regions.

Local governance is also assessed through the extent to which local government complies with the laws and regulations set by national government. These include government regulations on a minimum service standard.⁶⁷ Under the EKPPD, districts/municipalities are required to

⁶⁷ Up until now, the government has issued a minimum service standard for 13 sectors. These are housing, internal affairs, social care, health, women’s empowerment and child protection, environmental affairs, family planning, education, labour, public works, food resilience, culture and tourism, communication and information.

supply information to show whether or not they have complied with these regulations, and if so, to provide the list of services for which the minimum service standard has been implemented. Furthermore, local governance is also measured by the extent to which local government synchronises its programmes with the development priorities set by the national government, the effectiveness of the decision-making process undertaken by local policymakers, the utilisation of local budgets, and innovations in local governance.

Measurement at the level of local policy implementer deals with the measurement of services provided by local government such as education, health, environmental affairs and public works. The EKPPD system includes the measurement of the whole range of government functions which have been delegated to local government. As Jones and Pendlebury (2010) have argued, supported by Radin (2000) (see discussion on point 2.4.3) about narrowness of output measures, the more specific the focus, the more useful the measurement. Applying measurements to ‘complex, multiservice governments’ (p28) it will be more difficult and will not be comparable. From this perspective, the nature of the environment of the EKPPD system is characterised as complex and multiservice governments. Therefore, it is interesting to find out how the system is implemented. Detailed discussion about the implementation phase is provided in the next chapter.

6.3.2 Measurement techniques

The first element of measurement technique relates to performance indicators (or measures). These reflect how performance is conceptualised in the EKPPD system. The 158 KPIs⁶⁸ involved in EKPPD mainly represent output indicators. For example, the two indicators relating to civil registration are i) the length of processing time, and ii) the costs of obtaining

⁶⁸ Based on the latest EKPPD manual issued through the Minister of Home Affairs Circulation Letter No. 120/313/OTDA, 24th January 2011. The first set of indicators, however, consisted of 178 KPIs.

the citizenship card, as stated in the local regulations. The expected outcome is that all local residents will be properly registered, indicated by, for example, all residents holding a citizenship (ID) card. However, although the local regulation provides information about the processing time and the costs of an ID card, it does not show what proportion of residents holds an ID card. Having a clear statement in the local regulation regarding the processing time and the costs involved may encourage residents to get an ID card but is not a guarantee that every resident will eventually have an ID card. The two indicators thus fall into the category of ‘low level outputs’.

To give another example, the timeliness of report submission (by local to national government) has been adopted to indicate the effectiveness of the relationship between the two (the second measurement aspect of policymaker). The indicators are very crude as they do not take into account any technical problems that might be encountered by the local government, which could then prevent them from submitting reports on time (more detailed discussion about this point is provided in the next chapter). At the same time, a delay in report submission does not necessarily reflect an ineffective relationship between local and national governments.

Measurement at the level of policy implementer, especially for the eight aspects of general administration, faces a problem similar to measurement at policymaker level, namely, the reliance on a low level of outputs. For example, with regard to the completeness of planning documents (availability of planning documents), physical documents can be examined but the indicator cannot show whether in practice they are used or consulted by policy implementers. This is thus categorised as a low level output. Some types of measure are not under the control of policy implementers, such as their budget allocation, which is controlled by local policymakers.

In terms of the minimum service standard, most indicators are in the form of a ratio, some indicators require dichotomous answers such as exist/does not exist, Yes/No, few indicators are in the form of per thousand population: the number of youth sports/social centres per 1,000 population (that is, covering youth and sport functions) and the average availability of staple foods per year in kilogrammes per 1,000 population (that is, covering the food resilience function). One indicator requires districts/municipalities to list their sport facilities. Other indicators are expressed in terms of frequency such as number of exhibitions in a year (communication and information function). Table 6.1 summarises type of measures adopted in the EKPPD system and number of KPIs within each category.

Measurement Level	Type of measure	Examples	Number of KPIs
Policymakers	- Existence of regulations/standard operating procedures (SOPs), and systems	Existence of regulation on building permit	10
	- Timeliness of reports submission	Timeliness of the 'LPPD' report submission	3
	- Ratios		21
	1. Percentage (19)	Percentage of local ordinances approved by local parliament to the number of ordinances proposed	
	2. Per ten thousands of population (1)	Number of social police per 10,000 population	
	3. x/y (1)	Ratio of civil servant compared to total population	
	- 'H' question		8
	a. How long (1)	Processing time of obtaining an ID card	
	b. How much (1)	The cost of obtaining an ID card	
	c. How many (6)	Number of Memorandum of Understanding (MoU) owned	
	- Type of audit opinion on financial report		1
	Total KPIs		43
Policy Implementer			
<i>General administrative</i>	a. Existence of SOPs, systems and positions	The existence of non-management position (e.g. teachers at education agency or doctors at health agency or auditors at local inspectorate)	5
	b. Ratios		14
	1. Percentage (13)	Percentage of officials meeting requirements of their respective grade	
	2. x/y (1)	Ratio of civil servants at a specific working unit compared to total civil servants at the respective municipality	
	c. 'H' question (how many)	Number of public participation facilities and type of facilities	2
	Total KPIs		21
<i>Minimum Service Standard</i>	a. Existence of regulations and documents	Existence of strategic planning document	8
	b. Ratios		76
	1. Percentage (67)	Percentage of households having access to clean water	
	2. Per thousands of population (5)	Number of citizens owned birth certificate per 1,000 population	
	3. x/y (4)	Number of vehicles compared to number of passengers	
	c. 'H' questions		9
	a. How much (1)	Net export value	
	b. How many (6)	Number of art and cultural exhibition facilities	
	c. How often or frequency (2)	Number of trade exhibition per year	
	d. Yes/No	Implementation of ID card using Family Unique Number	1
	Total KPIs		94
Total KPIs of Policymaker and Policy Implementer			158

Table 6.1 Type of Measures Adopted in the EKPPD System

Source: Developed by author, based on analysis of KPIs adopted in the EKPPD system

Information contained in Table 6.1 above can be summarised as presented in Table below.

No.	Type of measures	Number of KPIs
1.	Availability of regulations/standard operating procedures (SOPs), systems, positions and documents	23
2.	Timeliness of reports submission	3
3.	Ratios	111
4.	‘H’ questions	9
5.	Type of audit opinion	1
6.	Yes/No	1
Total KPIs		158

Table 6.2 Summary of Type of Measures Adopted in the EKPPD System

Source: developed by author, based on analysis of KPIs of the EKPPD

Measurement at policy implementer level is function-based not organisational structure-based. This is the second difference between the EKPPD and LAKIP systems. LAKIP performance indicators represent the performance of a working unit. However, performance indicators in the EKPPD system are associated with function performance. The EKPPD is a performance measurement system which relies on self-assessment using mainly local government internal data, some of which is external data, especially that produced by the Statistics Office.

The EKPPD has adopted a composite measure or the use of single measure to judge the overall performance of a district/municipality. The use of a composite measure seems to follow the current trend in performance measurement, as discussed in Chapter 2. The composite index is formed by two components: the performance achievement index and the relevant materials index. The performance achievement index consists of performance achievement at policymaker and policy implementer levels, as described earlier. The relevant materials index refers to the extent to which a district/municipality follows the structure and format of reporting as defined by the government regulation on reporting (Government Regulation No. 3/2007).⁶⁹

⁶⁹ The report is known as ‘*Laporan Penyelenggaraan Pemerintah Daerah*’ (LPPD). As mentioned earlier, this report later on was decided to be the basis for evaluation of local government performance using the EKPPD system.

More information regarding this reporting regulation is presented in Chapter 7. The weight attached to the components involved in the composite index is shown in Figure 6.7 below.

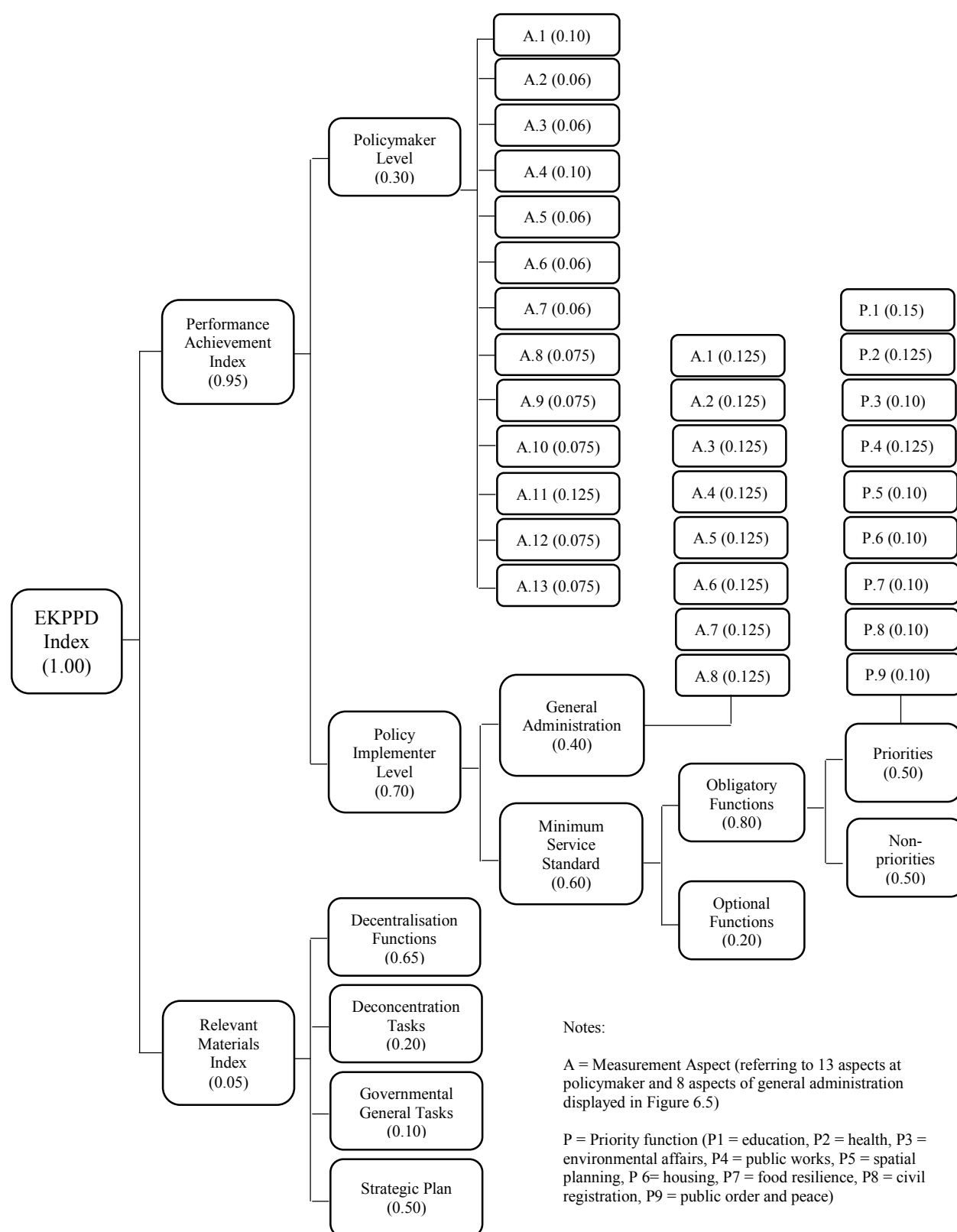


Figure 6.7 The Weighting Rules of the EKPPD System

Source: Minister of Home Affairs Circulation Letter No. 120.04/2289/OTDA, 27 August 2009

The differences between the latest version of the weighting rules and the previous version (based on the MoHA circulation letter no. 120.04/2393/OTDA, 5 November 2008) relate to the distribution of weight between performance achievement and the relevant materials index. The previous version allocated higher weight to the relevant material index (20%) than the latest version (5%). Moreover, in the previous rules the 13 measurement policymaker aspects were allocated equal weight (0.077 each), whereas the most recent version one distributes the weight unequally among the 13 aspects, as displayed in Figure 6.6. Finally, the 2008 version did not specify individual weight for the nine priority functions which come under the obligatory functions.

Each KPI is assigned a score, ranging from 0 (zero) as the lowest and 4 (four) as the maximum score. The EKPPD manual explains the scoring rules as follows: firstly, if districts/municipalities do not supply the data for a particular KPI, it is automatically assigned a score of zero. Thus, if a KPI provides the option of two of answers (for example, ‘Yes/No’ or ‘Available/Not available’) the rule is to assign the maximum score of 4 if the answer is positive and 1 if the answer is negative. For KPIs where a ‘negative’ answer indicates good performance while a ‘positive’ answer means bad performance, these rules are reversed. For one specific measure (the ‘Supreme Audit Office’s opinion on the financial reports’), the best audit opinion, ‘Unqualified Opinion’, is scored as 4, ‘Qualified Opinion’ as 3, ‘Adverse’ as 2 and ‘Disclaimer’ as 1. Finally, for KPIs which are expressed as a percentage, there are five steps to scoring:

- (1) Combine performance achievement within a province;
- (2) Determine maximum and minimum values;
- (3) Normalise the data;
- (4) Obtain average data, and
- (5) Classify achievements into 4, 3, 2, or 1.

If a local government obtains ≥ 1.25 times the average value of data normalisation, it is given the maximum score of 4 for that particular KPI. If the score is between the average value of data normalisation up to 1.25 times of the normalisation value, then the respective KPI is scored as 3. A KPI is scored as 2 when a local government achieves ≥ 0.75 of the average normalisation value to the average value of normalisation, and 1 if a local government achieves ≤ 0.75 of the normalisation value.

After generating a composite index of each individual district/municipality, the government determines its status and ranking. The status is classified into four: very high, high, medium and low performers. Table 6.3 shows the range of scores for each performance category.

Ranges of Score	Performance Category
3.01 – 4.00	Very high
2.01 – 3.00	High
1.01 – 2.00	Medium
0.00 – 1.00	Low

Table 6.3 Performance Score and Category

Source: Minister of Home Affairs circulation letter no. 120.04/2289/OTDA, 27 August 2009

As well as determining the status of every district/municipality and province, the government also announces the:

- (1) 10 best performers by districts and municipality;
- (2) 10 worse performers by districts and municipality;
- (3) 3 best performers by province, and
- (4) 3 worse performers by province.

The nine districts/municipalities observed in this study differ in terms of social, economic and cultural aspects. Studies in developed economies show that different circumstances facing a specific local authority can significantly influence its performance score based on composite measures as applied in the EKPPD system (see discussion in point 2.4.3). This finding is

consistent with the previous report (see Taraschewski and Wegener, 2011) which suggest that some districts/municipalities request that the measurement should take into account the specific characteristics of their regions.

The fact that the EKPPD is not equipped with procedures to adjust performance according to the unique circumstances of the respective regions (and in view of the fact that regions in Indonesia are very diverse) could be seen as the EPPKD's most serious weakness. This weakness was acknowledged in interviews with the key informants. INF3/NG for instance stated that:

We realised that the design of the EKPPD indicator does not recognise the different characteristics of regions in Indonesia..., especially in terms of geography. For regions relying on the water transportation for example, we should not ask 'miles of roads in a good condition,' we should ask instead how many boats in a good condition for example (Interview with INF3/NG on 13 December 2011)

INF3/NG's statement was supported by INF5/NG: 'The system was designed as very generic. It does not recognise the specificity of regions such as Papua and Aceh that have a different kind of autonomy.'

A similar issue was highlighted by two respondents to the survey questionnaire administered with 31 local governments.

The EKPPD should continue to search for a better formulation so that the final results of the evaluation could represent real conditions at regions. (ss2.d)

The key performance indicators should be re-considered and there should be a technique adopted to classify districts and municipalities in Indonesia; therefore key performance indicators for each local government are not necessarily the same. (ws3.m)

Both comments suggest the need to recognise the uniqueness of regions.

In terms of the benchmarking used to judge the performance of a district/municipality, a floating average performance value has been adopted, rather than setting explicit performance targets for a given year, as explained by INF3/NG. INF3/NG said that the use of a floating average target could avoid the possibility of dysfunctional effects, such as the ratchet effect as experienced with LAKIP. This chapter does not cover a detailed discussion of performance targets as according to Van Helden and Reichard (2013) setting performance targets is one of main components of performance management. On the other hand, this study focuses on performance measurement. Table 6.4 below summarises the features or characteristics of the EKPPD as the new performance measurement system applied in Indonesia. Meanwhile Table 6.5 presents a comparison between features of the EKPPD system and another performance measurement system (LAKIP) applied much earlier than the EKPPD.

No.	Element of System Design	Characteristics
1.	Measurement targets (what to measure)	<ul style="list-style-type: none"> • The EKPPD measure performance of local government at the level of policy makers and policy implementers. • In term of ‘depth’ performance of Bouckaert and Halligan (2008), the EKPPD deals with performance at the meso level (from a government perspective) as it measures the performance of a specific policy field, namely decentralisation policy. Then, the EKPPD is categorised as a performance measurement system at macro level (from a local government perspective) as it concerns the performance of local government as a whole (the local government-wide). • The EKPPD focuses of measurement into two: governance aspect and local government’s services. • The EKPPD is applied in complex and multiservice governments
2.	Measurement techniques (how to measure)	<ul style="list-style-type: none"> • Performance is conceptualised primarily in terms of outputs • The use of composite measures • The EKPPD Index is formed by two major components: performance achievement (95%) and consistency of reporting format and structure with the regulation requirement (5%) • The EKPPD Index ranges from 0-4 • The measurement system adopts self-assessment and desk-based performance evaluation • Performance evaluation can include common sense and field visits • No procedures are applied to account for exogenous factors

Table 6.4 Summary of Characteristics of the EKPPD System Design

Source: Developed by author, based on findings

No.	Aspects	The EKPPD System	LAKIP System
1.	Approach	Top-down, standardised KPIs developed by the national government	Top down approach but indicators are developed by local governments themselves, derived from the local strategic planning.
2.	Depth performance	Macro and meso	Micro
3.	Basis	Functions-based performance measurement	Departmental-based performance measurement
4.	Focus	Governance aspect and services provided by local government	The consistency between strategic plan, budget and indicators
5.	Source of data	Internal and external	Internal
6.	Linkage to planning and budget cycle	No linkage	There will be a linkage (if the system is designed properly)
7.	Application of composite measure	Yes	No
8.	Application of ranking system, reward and punishment	Yes	Previously not, but adopted similar system since the implementation of the EKPPD system.
9.	Eligibility	Applicable only to local government	Applicable to all kind of government institutions
10.	Reported to	MoHA	MoABR
11.	Introduced through	Government Regulation No. 6/2008	Presidential Instruction No. 7/1999

Table 6.5 Comparison the EKPPD and LAKIP Systems

Source: developed by author, based on findings

This discussion addresses the second research question of this study related to the system design the EKPPD follows; the findings contribute to improving our understanding in terms of what type of performance measurement is operating in the context of developing economies.

6.4 Contingencies

The EKPPD structure presented in Figure 6.5 is clearly different from the measurement framework developed by the World Bank, as shown in Figure 6.3 above. As indicated by one of key informants and mentioned earlier, the framework for new performance measurement initiative should be developed by referring to the ultimate objectives of decentralisation policy itself. This view is consistent with the performance management framework proposed by Van Helden and Reichard (2013) and Buschor (2013) which suggests that organisational objectives and strategies should inform the design of performance management systems. According to Buschor, in most countries the strategy usually refers to ‘legal mission’ (2013, p. 4). Then,

linking back to the evaluation framework of HM Treasury (1988) presented in Figure 2.4, the measurement framework of decentralisation policy in Indonesia according to INF2/NG, should be (see Figure 6.8):

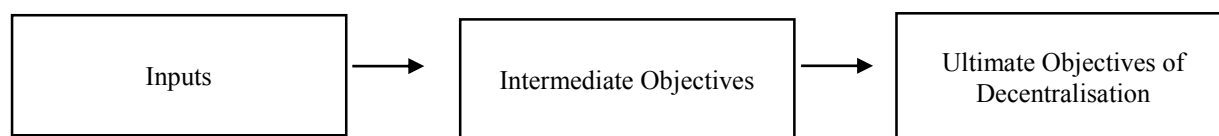


Figure 6.8 Framework for Measuring Results of Decentralisation Policy

Source: Based on interview with the chair of the new performance measurement initiative design team on 23rd December 2011).

The objectives of decentralisation in Indonesia however, especially during the radical decentralisation period, were not clearly articulated (as discussed in Chapter 5). Nevertheless, after the redefinition of Indonesian decentralisation in 2004, Law 32/2004 states that its objective is to improve the quality of life or wellbeing of local people through improvement of (1) levels of welfare or prosperity, (2) public service delivery, and (3) local competitiveness (Law 32, 2004). Therefore, this should be used as the reference of the measurement framework which is consistent with Buschor's (2013) argument mentioned earlier. Besides improving the wellbeing of local people, the two key informants (INF2/NG and INF6/NG) also mentioned improved democratisation at the local level as the second objective of decentralisation policy in Indonesia. Thus, Figure 6.8 can be adjusted to give Figure 6.9 below.

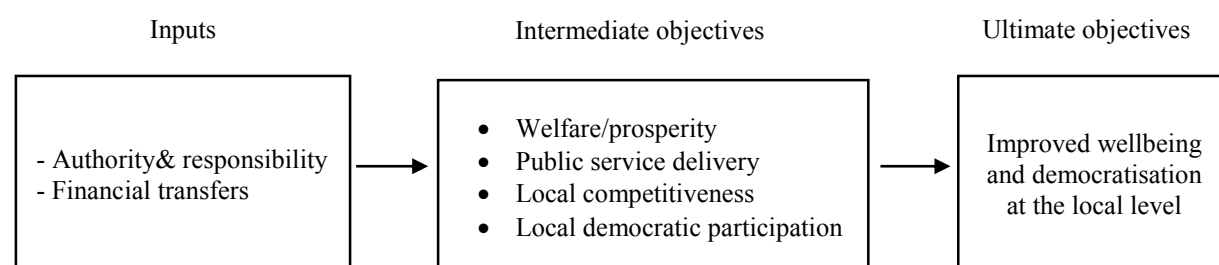


Figure 6.9 Measuring the Results of Decentralisation Policy in Indonesia

Source: Developed by author, informed by Law 32 and 33, 2004 and interviews with INF2/MOHA and INF6/MOHA

The structure of the EKPPD system, however, is also not the same with the measurement concept illustrated above. Thus, a question emerged regarding whence the framework of the

EKPPD was derived. Instead, the measurement framework illustrated in Figure 6.8 shows consistency with the second measurement system (EKPOD) (see Figure 6.10).

Although the EKPOD structure does not include measurement of democratisation (the second objective of decentralisation), the first objective (improved quality of life) is much more important, as INF2/NG and INF6/NG emphasised. INF6/NG for instance stated:

Decentralisation was aimed to improve quality of life and democratisation at local level. The first objective, however, is more important than the second one. There is no guarantee that being a democratic country means that we will be able to provide better quality of life for our people. In comparison to our neighbours [Malaysia, Singapore and Brunei Darussalam], Indonesia is much advanced in terms of democracy but look at them, in terms of quality of life, they are much better than us.

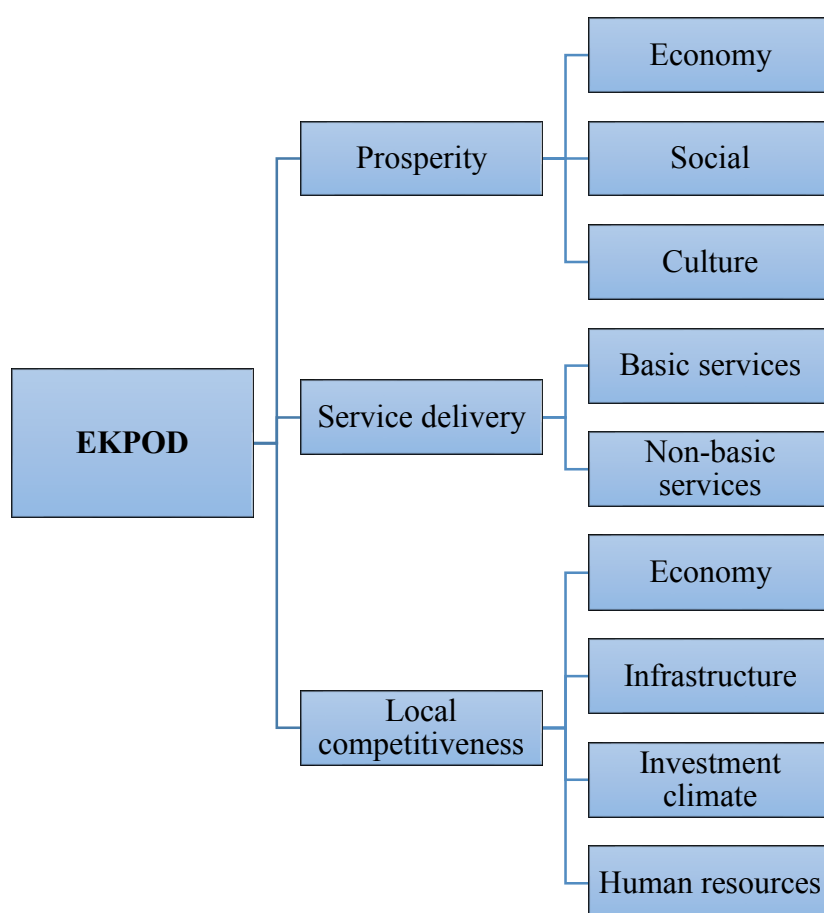


Figure 6.10 The EKPOD Structure

Source: Informed by Government of Regulation No. 6/2008

The government regulation on the new performance measurement initiative issued on the 4th February 2008 includes the EKPOD indicators in its annex but not the EKPPD indicators. Thus, another question is raised in terms of the reason why two separate measurement systems have evolved – the EKPPD (an annual measurement system) and the EKPOD (conditional on the EKPPD). ‘What is the significance of having the EKPPD system as well as the EKPOD system?’ Even one measurement system requires huge investment, as discussed in Chapter 2. Having two measurement systems simultaneously to measure the same thing (results of decentralisation policy) would increase costs, consume more time and complicate procedures.

6.4.1 Political considerations

As mentioned earlier, the new performance measurement initiative was driven by the needs for a technical instrument to merge/abolish regions performing poorly in terms of implementing decentralisation policy. Although mandated by law, the merger/abolishment of an autonomous region will be not an easy task as it entails political consequences. This was reflected in a statement of INF5/NG: ‘...[the] merger or abolishment of an autonomous region is not an easy to deal with. It may trigger a civil war in the region...’ This statement is understandable, given the background of decentralisation in Indonesia. As Devas and Delay (2006) stated and as mentioned in chapter 5, the driving force behind decentralisation in Indonesia was the will to anticipate potential or actual regional conflicts. If regions had to fight to gain autonomy, then they definitely will fight too if autonomy is taken back from them. Therefore, there should be sufficient procedures and justifications prior to a decision to merge or abolish low performing regions.

The low performing regions also should be given enough opportunity to plan actions on how to improve their performance. At the same time, the national government also should provide assistance or capacity building programmes. This explains why merger or abolishment does

not takes place immediately after an evaluation. The reason for why the measurement system was eventually split into two systems is, however, still not clear yet. According to INF2/NG:

The initial idea of measuring local government performance in achieving the objectives of decentralisation was simple, not complicated. There was no such thing of splitting measurement process into annual and conditional systems [EKPPD and EKPOD].

The statement above implies that initially there was only one measurement system, namely EKPOD. The rule that the EKPPD should take place before the EKPOD must have come at the very latter stage, before the draft of the regulation on the new performance measurement initiative was finalised. This interpretation is supported by the explanation provided by INF 2/NG about his rotation to another position, which took place before the regulation on the new performance measurement initiative was finalised. Up to that point, he was certain that there was no talk about splitting measurement into annual and conditional. The EKPPD system itself was designed after the issuance of a government regulation on the new performance measurement initiative. As mentioned previously, the regulation was signed on the 4th February 2008 and it does not yet contain the indicators for the EKPPD. The development of the EKPPD indicators was started on the 19th February 2008 when MoHA first sent a letter to the sector ministries requesting them to supply indicators of the EKPPD. Further details about development of the EKPPD indicators is provided in point 6.4.3. The influence of the direct election system for choosing districts heads/mayors seems to explain why eventually the measurement system was split into two (see discussion in the next point).

6.4.2 Influence of direct election system

As explained in the interview with INF5/NL, the EKPOD adopts mainly outcome-based indicators such as a human development index and as he noted, a ‘human development index is not something that we can developed overnight.’ It may take years to improve human development index performance, while under the system of direct election, elected leaders have

only five years to complete their programmes. There is a problem of performance attribution to elected leaders (see illustration below).

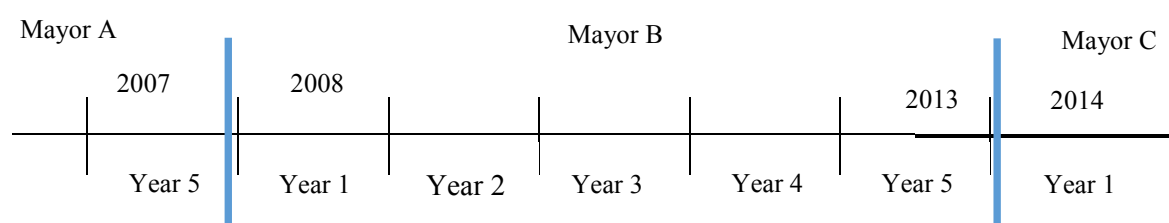


Figure 6.11 District Head/Mayor's Term of Office and Performance Reporting

Source: developed by the author based on interview with INF5/MOHA

Assuming municipality X performed poorly for three consecutive years (2008-2010), this poor performance might be partly associated with performance of Mayor B and partly with performance of Mayor A or even with the performance of the previous mayors, prior to when Mayor A took the office. If the three consecutive year period ended in 2013, the poor performance might represent the weak programmes and leadership of Mayor B. However, the influence of the previous mayor's performance could still not be ignored. This argument is supported by Jones and Pendlebury (2010) below:

The government services provided today are inseparable from those provided in the past, given that security, health and education are of the most fundamental cultural kind, from the long distant past. These services provided by government organizations, again, because each is only contributing to the overall well-being of the population, are also inseparable from each other, and from the for-profit... (p.19).

If the three year period ends in 2014, which is the first year of the new Mayor's (Mayor C) term of office, it means that Mayor C will be punished for the poor performance of the previous mayors.

Besides technical considerations, there were also political considerations in this context, as INF5/NL explained. Political considerations relate to who should be rewarded for good

performance or punished for bad performance, as the EKPPD system applies reward and punishment. Thus, consideration as to which elected leader should be rewarded for a good performance and which should be punished for bad performance was the reason for why it was eventually decided that measurement should use indicators that can be easily attributed to work programmes or activities undertaken during the term of office of a specific elected leader. Thus, political considerations, the difficulty of attributing performance to specific elected leaders, which is connected to the system of directly electing the head of districts/mayors, explain why two measurement systems have evolved and why the EKPPD (annual evaluation) adopts mainly outputs indicators, and why the EKPOD (conditional evaluation) adopts outcomes indicators.

Thus, the case of the EKPPD demonstrated causality issues which has been discussed in chapter 2. The case of the EKPPD system provided new evidence related to the difficulty in establishing a causal relationship in the context of a direct election system applied to the head of districts/mayors. The causality problem eventually caused the approach to measurement to be divided into two systems: the first measurement system relies on output indicators whereas the other uses mainly outcome indicators⁷⁰.

The study of Mimba et al. (2013) suggests that managers of working units see elected leaders as the most powerful stakeholders in local government; as a result, they design performance indicators to accommodate the elected leaders' interests. The finding of Mimba et al. (2013) points to the influence of elected leaders on the design of performance measures. The findings of the current study expand that of Mimba et al. (2013), indicating that in the context of the

⁷⁰ Cavaluzzo and Ittner (2004) provides empirical evidence for the difficulties associated with developing measures due to the nature of most of government programmes (see discussion in point 2.4.1).

EKPPD, despite performance indicators having been designed by the national government, the interests of elected leaders still exert an influence.

The reason why two separate measurement systems have evolved – the EKPPD (an annual measurement system) and the EKPOD (conditional on the EKPPD) – is now clear. As mentioned in the introductory chapter, the third measurement system (EDOB) is beyond the scope of this study; however, it is relevant to provide a brief explanation in terms of how the new performance measurement initiative (EPPD) finally includes EDOB. An ADB Report released in 2008 reveals how the third measurement system was finally integrated into EPPD. The report describes how initially the Directorate General of Regional Autonomy at MoHA prepared a separate draft of the regulation to evaluate the newly-established regions (EDOB). At the same time, the Division of Capacity Building and Evaluation⁷¹ drafted the EPPD regulation. It was considered to be cumbersome as these two regulations each stood on their own; thus, during the harmonisation, they were merged. The harmonisation process was supported by funding from ADB (ADB TA 4682-INO). ADB also provided funding for the first year of EPPD implementation (BPKP, 2011). This was the reason why the EPPD eventually turned into a package of measurement systems consisting of three sub-measurement systems (see Figure 6.12).

⁷¹ A division under the Directorate of Regional Autonomy, MoHA

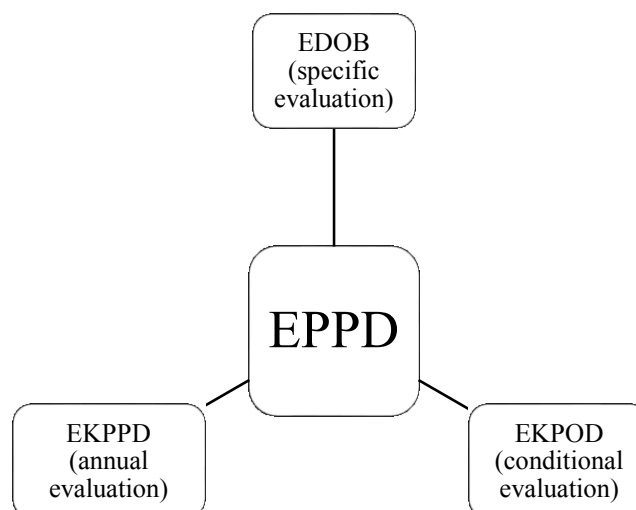


Figure 6.12 The EPPD and Its Components

Source: Developed by author, informed by Indonesian Government Regulation NO. 6/2008

6.4.3 Stakeholders' support and budget

In terms of indicator development for the EKPPD system, INF3/NG described how the process began with the MoHA sending a letter to the sector ministries (letter no. 120/408/SJ on 19 February 2008) asking them to supply performance indicators for their sector. This step met with a lack of response. There were several attempts to establish contact by letter; however, only seven sector ministries responded and supplied performance indicators for their sectors (education, health, environment, forestry, labour, public works, and housing) (Minister of Home Affairs circulation letter no. 120/1875/OTDA, 5 September 2008). INF5/NG confirmed the lack of response from other sector ministries in terms of supplying indicators, adding that the many meetings set up by MoHA to discuss indicator development were rarely attended by other sector ministries. INF5/NG emphasised that the lack of response from other sector ministries was the reason for the slow process of indicator development.

According to INF5/NG, the reluctance of the ministries to attend these meetings related to a lack of clarity concerning who was to pay for sector ministry representatives to participate.

Should they be paid by MoHA or their respective ministries? At the same time, as INF5/NG explained, this unclear budget allocation sometimes caused other sector ministries to send only those staff to attend the meetings who were not in a position to make decisions on behalf of their ministries regarding which indicators should be supplied by their sector. Then, INF3/NG explained that the very low response from sector ministries had led to the creation of a small dedicated team, with the defined task of formulating performance indicators covering all sectors.

After the indicators had been developed, sector ministries were invited to comment. As INF3/NG noted, there were many complaints from sector ministry representatives during the discussion forum, who argued that the indicators were inadequate to reflect the overall performance of local government, particularly for some sectors. The team improved the indicators by incorporating suggestions from sector ministries and a set of indicators was signed on 5 September 2008. This set of indicators was introduced to representatives from local and regional governments through a one-week workshop arranged by MoHA on 15-19 September 2008. As a result of this workshop, the set of indicators was revised and signed off on 9 October 2008. The October 2008 version containing 173 KPIs was the set of indicators that was finally disseminated and used to evaluate local government performance for the first time (evaluation on performance report of 2007).

The description above demonstrates lack of stakeholder support (i.e. from sector ministries) on the design phase of the EKPPD. The key informant connected the lack of sector ministry support to the unclear budget of the EKPPD system. This finding confirms the literature that suggests the importance of budget support for designing performance measurement system as discussed in chapter 2. Besides the effect of the unclear budget, the lack of stakeholder support can be connected to the conflict of interest between the sector ministries and MoHA. As

discussed earlier, one of the intended uses of the EKPPD is to exert control over local government. If the EKPPD is successful, it will bring local government in Indonesia under the control of MoHA. I argue that sector ministries do not want this to happen as they have an interest in maintaining their influence over local government. This argument is supported by insights from the interviews with INF3/NG, INF6/NG and INF7/NG.

The conflict of interest between MoABR and MoHA to maintain influence over local government, for instance, is reflected in the lack of participation in the process of the EKPPD implementation that will be discussed further in the next chapter. MoABR is one of ministry that is mandated by the regulation as one of members of the national evaluation team under the EKPPD system. Moreover, under the LAKIP system initiated by MoABR, the indicators are supposed to be developed by local government themselves (see characteristics of the LAKIP system in Table 6.5). However, as reported by INF2/A/mx, since the implementation of the EKPPD system, MoABR has also introduced so-called ‘main performance indicators’ that adopt similar idea to those of the KPIs in the EKPPD system. Moreover, the LAKIP system also did not originally apply a ranking system, but a ranking system is now also being applied to LAKIP. The nuance of the competition between the two ministries was also highlighted in the interview with INF3/NG:

We have included the Ministry of Apparatus and Bureaucratic Reform (MoABR) as member of the national evaluation team in the new performance measurement initiative. By placing the minister as the vice chair of the team, we expected to gain a full support from MoABR. In fact, they are just still busy with their own interest.

INF3/NG implies ‘their own interests’ in the quote above to ‘LAKIP’ system.

6.4.4 Metric difficulties

A part from the conflict of interest among the sector ministries and MoHA that caused the irresponsiveness to the request to supply the indicators to be adopted for the EKPPD system as

requested by MoHA, I believed that the low response rate was also connected to metric difficulties. As Cavaluzzo and Ittner (2004) have argued, and as discussed in chapter 2, the metric difficulties relate to the nature of the government programmes. Sector ministries must have experienced difficulties in formulating the appropriate indicators relevant for their sectors. This argument is supported by the information provided by INF7/NG who was in charge of coordinating the formulation of the indicators for minimum service standards. INF7/NG reported that sector ministries struggled to define the indicators. He once led a meeting at the regional autonomy watch commission that was attended by representatives of the sector ministries and experts from academia. The purpose of the meeting was to discuss the indicators to be adopted as minimum service standards for each of the sector ministries. According to INF7/NG, sector ministry representatives said that they did not know what indicators to develop.

As mentioned earlier, education and health were among the ministries that responded to MoHA's request to supply performance indicators. Similarly, only eight sector ministries eventually managed to supply indicators relevant for their sector for inclusion in the EKPPD system. These eight ministries represented the ones that had developed minimum service standards indicators in their sectors by the time the first manual of the EKPPD system was signed on 5 September 2008. Furthermore, as described earlier, complaints were raised regarding indicators that insufficiently capture the performance of local government for certain sectors. According to INF2/NG, who led the small team devoted to formulating indicators for the EKPPD covering all sectors, they faced a trade-off requiring a balance to be maintained between the need to create many indicators to ensure that overall local government performance is captured in the EKPPD system and the capacity of local government to report them. That was why the focus was firstly to formulate indicators related to obligatory functions. As discussed in point 2.2.2, Jones and Pendlebury (2010) term this challenge as a

‘comprehensiveness versus concision in reporting’. The difficulties in formulating indicators also explain of why the opportunity to develop indicators for optional functions was given to local government.

6.4.5 Influence of drivers on system design

Influence of intended use for recentralisation

The system design of the EKPPD is clearly influenced by its intended uses. The government’s intention to re-impose control over local government, for example, manifested itself in the definition of measurement targets into policymaker and policy implementer. Ideally, with the right to self-management under decentralisation, local policymakers are free to define local policies. By evaluating the content of the regulations made by local policymakers, the meaning of ‘autonomy’ itself is undermined. Under autonomy rights, assessing the performance of policy implementers is ideally the responsibility of the local policymakers. That is why one of the intended uses of the EKPPD is a technical instrument for re-exerting control over local government. Moreover, the intention to recentralise power is also reflected in the use of a top-down approach and standardised performance indicators. This approach is inconsistent with the nature of the regions in Indonesia, which are very diverse. More clearly, the standardised set of performance indicators neglect the diversity and uniqueness, which should be afforded equal importance in the context of decentralisation. The adoption of a top-down approach and standardised performance indicators are thus evidence of the EKPPD system being an instrument for recentralisation.

As an illustration of regional diversity in Indonesia, Rhodes et al. (2012) state that Indonesia has ethnicities and cultural groups as diverse as countries in Europe. There are approximately 300 ethnicities and 250 languages in Indonesia.

Influence of the World Bank's measurement framework

Although the final design of the new performance measurement initiative in Indonesia does not really follow the LGPM framework, its influence on the design of the new measurement systems cannot be totally ignored. Some of the proposed LGPM indicators were eventually adopted as EKPPD or EKPOD indicators. My analysis of the LGPM indicators shows that that 52 per cent of the proposed service delivery indicators covered by the LGPM were converted into minimum service standards for public service delivery under the EKPPD, either with no adjustment or some minor adjustments (17 out of 33 indicators). The influence of the LGPM in terms of the investment climate on the EKPPD design is reflected in KPI 43 of policymakers (local competitiveness) and KPI 41 of minimum service standard (capital investment).

The EKPPD measures the number of investments approved in a year, then local governments also have to supply investment approval documentation as evidence during the evaluation process. This documentation provides information detailing to whom local governments granted investment approval and the value of the investment. From this information, the government can ensure that there is no overlapping approval issued, as many such cases happened in the past. This aims to anticipate the problem of local governments issuing overlaps business permits. For example, as commonly happened in the first wave of decentralisation (as discussed in chapter 5), local governments issued permits to more than one company to explore the same area as very often happened in the mining industry. By measuring this, it is clear that the government wanted to create a conducive investment climate in the regions. Then, the government can also monitor increases or decreases in the value of the capital investment flowing into a particular local government (KPI 41 of minimum service standard).

Under the EKPOD, investment climate indicators were compressed into five indicators, which encompass approximately 35 per cent of investment climate indicators under the LGPM. Some

indicators and areas of focus for policymakers and policy implementers (specifically general aspects) under the EKPPD seem to have been informed by indicators from public financial management and fiscal performance under the LGPM (see Table 6.6). Moreover, the influence of the LGPM concept is not limited to the adoption of some its indicators by the EKPPD and the EKPOD, but also in terms of its scoring techniques and its application of a composite index.

LGPM		EKPPD	
Indicator	Description of measurement aspect/indicator	Adopted as	Notes
1. Public Financial Management			
19	Local legislation on asset management exists	Availability of assets registration and number of unused assets	Reported per policy implementer, included in general aspect – local assets management
23	Journals, ledgers, supporting ledgers and balance sheets all exist	Availability of financial reports (balance sheets, notes on financial statements)	Reported per policy implementer, included in general aspect – local assets management
2. Fiscal Performance			
54	Share of local budget for infrastructures development	Capital expenditure to total budget	Reported per policy implementer, included in general aspect – local financial management
55	Share of local budget for infrastructure maintenance	Maintenance expenditure to total budget	Reported per policy implementer, included in general aspect – local financial management
56	Combined budgeted expenditure on health and education	Ratio Combined budgeted expenditure on health and education to total budget	Policy maker level, aspect harmony between the national and local policies, focus finance
3. Service Delivery			
60	Net enrolment rates for elementary (children age 7-12 in primary school over of children age 7-12)	The 3 rd KPI of minimum service standard in education	Adopted as is
61	Gross enrolment rates for secondary (children age 13-15 in junior secondary school over of children age 13-15)	The 4 th KPI of minimum service standard in education	Adapted as net enrolment, instead of gross enrolment
62	Literacy rate for 15 -24 year	The 2 nd KPI of minimum service standard in education	Adapted by not mentioning the upper limit for the age
63	Junior secondary completion rate for 16-18 year old (of children age 16-18 completing junior secondary school)	The 11 st KPI of minimum service standard in education	Adopted as is
72	Childhood immunization coverage (proportion of children up to 12 months old having completed all scheduled immunizations)	17 th KPI of minimum service standard for health function	Adapted into villages coverage, instead of individual children
73	Proportion of deliveries assisted by a trained professional	16 th KPI of minimum service standard for health function	Adopted as is
77	Minimum service standard at the district level applied	11 st KPI of policy maker level, 2 nd aspect of measurement	
78	Share of health spending going to primary healthcare	17 th KPI of policy maker level, 3 rd aspect of measurement	Developed further into share of spending for basic services, include nine services
79	General spatial plan exists	3 rd KPI of policy maker level, 1 st measurement aspect	Merged just into one indicator
80	Detail spatial plan exists		
81	Green spatial plan exists		
82	Share of roads districts in good condition	27 th KPI of minimum service standard for public works function	Adopted as is
83a	Ratio of green area to total district/city area	31 st KPI of minimum service standard for spatial plan	Adapted into ratio between open green space area to the area allocated for buildings and other purposes
83b	Ratio of irrigated rice fields	28 th KPI of minimum service standard for public works function	Adapted into ratio of districts irrigations (width) in good condition to total width of irrigations in the districts
84	Share of population with access to clean water (Based on MDGs definition)	36 th KPI of minimum service standard for housing function	Adapted into share of households with access to clean water
85	Share of population with access to proper sanitation (Based on MDGs definition)	29 th KPI of minimum service standard for public works function	Adapted into share of households with access to proper sanitation
4. Investment Climate		Local competitiveness measured through number of investment approvals per year (policymakers)	The wording of indicators is not the same with indicators of investment climate of the LGPM but both represent what is expected from the presence of good investment climate according to the LGPM framework.
		The 41 st KPI of minimum service standard (capital investment)	

Table 6.6 Mapping Influence of LGPM Framework on the EKPPD System
Source: Developed by author, based on analysis on the LGPM and EKPPD indicators

Influence of global commitment

Furthermore, the implications of the MDGs for performance measurement in developing economies was discussed in Chapter 3. According to the UNDP Indonesia (2010), not all the MDG targets have been achieved in Indonesia yet:

Indonesia has reached a critical period in the achievement of the 2015 Millennium Development Goals (MDG) targets. The country has made significant progress in meeting a number of targets in the areas of education, gender equity, malnutrition, and poverty reduction. There are concerns, however, over lack of progress on maternal health, child nutrition, and environment, including access to safe drinking water.(UNDP Indonesia, 2010, p. iii)

The statement above mentioned ‘maternal health, child nutrition, environment and access to safe drinking water’ as the areas still lacking progress in terms of achieving the MDGs in Indonesia. The EKPPD covers these areas as part of the minimum service standards. This implies that some KPIs of the EKPPD were informed by the MDG indicators. Analysis of the 158 KPIs adopted by EKPPD shows that the EKPPD system accommodates the second MDG goal as the minimum service standard for education, the third goal as the minimum service standard for women’s empowerment, the fourth, fifth and sixth goals as the minimum service standard for health, and the seventh goal as the minimum service standard for environmental and public works functions. The eighth goal is not relevant for local government and is thus not accommodated in the EKPPD system.

The discussion in this section puts forward empirical evidence for the argument of Van Helden and Reichard (2013), as shown in a statement below:

Depending not only on the objectives and strategies of an organization but also on different contingency factors, the design of a PSPM [public sector performance management]-system can have a quite different focus on the kind of performance elements to be identified, measured and reported... (p. 12).

Moreover, this study showed how political considerations significantly influenced the design phase of the performance measurement system to be applied in Indonesia. Political considerations not only influenced the choice of indicators to be adopted, it even caused the split of the measurement into two separate systems. Thus, this study addresses a gap in the literature as the investigation of how political considerations influence design phase of performance management systems was one of research agendas highlighted in the study of Van Helden and Reichard (2013).

6.5 Conclusions

Two major reasons explain the establishment of the new performance measurement initiative in Indonesia: recentralisation and influence of international donor agencies. Measurement as a technical instrument for recentralisation is supported by normative and rational arguments designed to justify the establishment of the new performance measurement initiative. Its intended use for recentralisation is manifested through the adoption of a top-down approach and standardised performance indicators to judge the performance of different regions. The influence of international donor agencies can be seen through: a) the notion of neoliberalism and b) the global commitments. More clearly, the new performance measurement initiative was intended to protect neoliberal policies in Indonesia and to help ensure the achievement of MDGs targets in Indonesia.

The new Indonesian performance initiative indicates the importance of the roles played by the international donor agencies. The ECD concept has been applied and carried out by multiple international donor agencies including the World Bank, CIDA and ADB. The World Bank contributed to the creation of internal demand for performance measurement through initiating early discussion about the need to measure the results of decentralisation in 2005. CIDA

contributed to imparting performance measurement skills through sponsoring seminars, workshops, symposia, conferences and assigning local and foreign expertise during the design process of the new Indonesian performance initiative. ADB contributed to fitting the performance measurement structure and providing budget support during early implementation.

In terms of design, EKPPD, as the first component of the new measurement system's package to assess local government performance, is a performance measurement system which focuses on the governance aspect and *services* delivered by local government in Indonesia. The governance aspect of EKPPD, however, was not only limited to compliance with the values of democratic government, as mentioned in the study of Williams (2004), but also with the laws and regulations set by the national government. The measuring of governance by EKPPD is thus also for the purpose of recentralisation.

The EKPPD system relies mainly on low level of outputs and does not include measurement of the costs to provide the local government services. From an accounting perspective, this is its main weakness. It produces a single performance index (a composite measure) for individual districts/municipalities and provinces in Indonesia. The composite measure is used to determine the status and ranking of individual districts/municipalities and provinces. In relation to the composite measure, the most obvious weakness of EKPPD is the absence of procedures to account for the unique circumstances of different regions, despite the fact that regions in Indonesia are highly diversified in terms of social, economy, geography and culture. Other features of EKPPD include the use of a self-assessment approach to obtain the performance data of districts/municipalities and provinces.

In terms of contingencies influencing the design phase, the findings of this study show agreement with the literature with regard to metric difficulties, the importance of stakeholder

support and a sufficient budget to support the design process. This study expands the literature through showing how political considerations can significantly influence the design of the measurement system and how the system of direct election for the district heads and mayors could magnify the causality problem. The influence was not limited to the choice of indicators to be used (i.e. from outcomes to outputs indicators), even caused the separation measurement into two separate systems.

Finally, the process of establishing the new performance initiative in Indonesia demonstrated a persistent conflict of interest among different stakeholders. The first conflict of interest exists between the government of Indonesia and international donor agencies in terms of the measurement framework to be adopted. The next conflict of interest emerged between MoHA and the sector ministries. The reluctance of other sector ministries to supply performance measures related to their sector can be assumed to be an expression of their disagreement with the notion of MoHA leading the establishment of a comprehensive performance measurement system. Another conflict of interest emerged between the national and local governments while determining whether the measures to be adopted should be outcome or output measures. Designing a performance measurement system needs to accommodate many different interests and is not easy. The summary of design phase is presented in Table 6.7 below.

Steps	Events/Activities	Comments
1.	World Bank in cooperation with MoHA organised a two-day workshop, <i>Strengthening Public Services in Decentralizing Indonesia: Approaches for Measuring Performance of Local Governments</i> , 28-29 August 2005 in Bali.	Early discussion about the necessity of measuring the performance of Indonesian local government in the context of decentralisation
2.	World Bank formulated a measurement framework to be used as a basis for developing key performance indicators	Measurement framework is called 'local government performance measurement' (LGPM)
3.	The process entered a stagnant period	Several directors of directorate in charge of the initiative changed.
4.	Various activities undertaken such as seminars, workshops, symposia and talk shows on radio and television, included travelling abroad (i.e. Canada) to gather idea for the new performance measurement initiatives	These all activities were sponsored by international donor agencies and reflection of EDC strategy
5.	Disagreement between the chair of the new performance measurement initiative design team and World Bank consultant regarding the measurement framework to be adopted	The disagreement ended up with a request from the chair of the new performance measurement initiative design team for World Bank consultant to withdraw from the team
6.	Measurement was split into two separate systems (the EKPPD and EKPOD) for technical and political considerations	Political considerations relate to the direct election system to choose the district heads and mayors (problem to attribute performance)
7.	ADB proposed to integrate another measurement system for newly-established regions (EDOB) for practical reason	Practical consideration that turned the new measurement initiative into a comprehensive measurement package consisting of three sub-measurement systems.
8.	Government Regulation No. 6/2008 on evaluation of local government governance (EPPD) was signed on 4 February 2008	The regulation contained the EKPOD indicators but the EKPPD indicators yet. The regulation mandated for the first performance evaluation using the EKPPD system scheduled to take place in October 2008
9.	MoHA sent a letter to sector ministries to request for indicators to be adopted for the EKPPD system.	The Minister of Home Affairs letter No. 120/408/SJ, 19 February 2008. There was lack of response to this request
10.	MoHA sent a second letter to sector ministries with the same request	Letter no. 102/1597/OTDA on 8 August 2008
11.	Establishment of a small team devoted to formulating all key performance indicators covering all sectors	The small team consists of MoHA, Financial and Development Supervisory Body and CIDA
12.	First version of a set of indicators was signed off on 5 September 2008	However, the real one used in the first evaluation was the set of indicators signed on 9 October 2008 which is the revision of the first one.

Table 6.7 Summary of Design Process
Source: Developed by author, summarised from findings

CHAPTER 7

PROCEDURES, STATUS AND FACTORS INFLUENCING IMPLEMENTATION OF THE EKPPD

7.1 Introduction

As discussed in Chapter 2, the term ‘implementation’ in this study is operationalized as the phase undertaken after design until performance information is ready to be used by stakeholders in whatever format is determined in the system design. The three main activities undertaken in the ‘implementation’ phase include (1) collecting performance data (2) analysing performance data and (3) reporting performance data. When these three activities are undertaken at the same level (within the same organisation or within the same department) and by the same stakeholder, the process may be less complex than when they are undertaken at different levels and by different stakeholders.

This chapter aims to describe and discuss the implementation of the EKPPD system. First, the findings of this study show that the EKPPD implementation requires a complex process as the production of measures undertaken at three different levels of government (collecting and analysing data to complete KPIs at the local level, analysing the quality of KPIs at the regional level and analysing KPIs and assigning scores to KPIs to produce composite measures at the national level). Second, implementation has encountered technical, organisational and institutional factors. More specifically, at all levels – national, regional and local government – capacity has been inadequate to implement the measurement system. A serious lack of technical capacity has been encountered more at local government than at regional or national levels, because it is local government which deals with collecting data used in the measurement

process. A more critical problem of inadequate capacity is faced by national government due to its failure to gain stakeholder support. This has caused serious problems in terms of the financial and human resources needed to support implementation. Inadequate capacity directly affects the reliability of performance indicators reported by local government and the reliability of the EKPPD index produced by the evaluation process. Finally, there were inconsistencies between design and implementation: a) implementation did not follow the system design and b) the involvement of subjective judgements whereas the system design adopted ‘objective’ principles.

This chapter begins with a description of the procedures involved in the EKPPD system. Then the next section discusses reporting performance indicators by local and regional governments. This discussion is followed by evaluating performance indicators at regional and national government levels. Discussions of both reporting and evaluating performance under the EKPPD system are synthesised in the next section and finally some conclusions are drawn.

7.2 Procedures Involved in the EKPPD System

Figure 7.1 outlines the EKPPD process. This starts with local government reporting the indicators for the performance evaluation to the governor and MoHA and continues up to the announcement of the evaluation results by the national evaluation team.

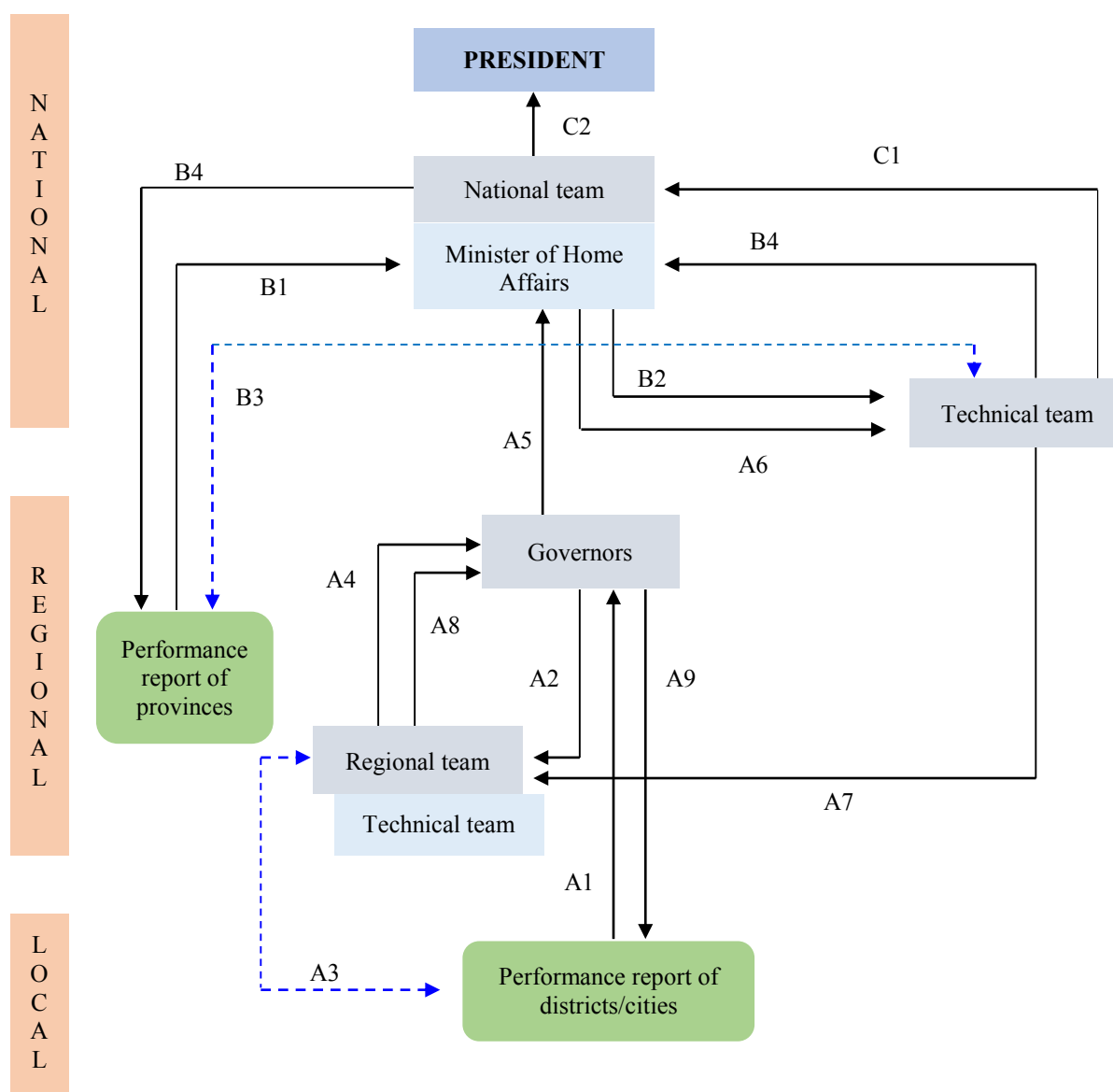


Figure 7.1 Measurement Process in the EKPPD System

Source: Minister of Home Affairs Circulation Letter of No. 120.04/2290/OTDA, 27th August 2009

Notes:

- A1 Performance report from districts/municipalities sent to governors
- A2 Governors send performance report of districts/municipalities to regional evaluation teams
- A3 Regional teams clarify the data of districts/municipalities or request additional data (if necessary)
- A4 Regional evaluation teams send evaluation preliminary results to governors
- A5 Governors forward the preliminary evaluation results from regional teams to Ministry of Home Affairs and the respective districts/municipalities
- A6 Ministry of Home Affairs forwards the preliminary evaluation results of evaluation by regional teams to technical national team
- A7 Technical team at the national level sends final evaluation results and national ranking of districts/municipalities to regional teams

- A8 Regional teams forward the final evaluation results and national ranking of districts/municipalities to governors
- A9 The governor forwards the results to the mayor or district head
- B1 Performance report of provinces is sent to the Ministry of Home Affairs
- B2 Ministry of Home Affairs sends the performance reports of the provinces to be evaluated by the technical team
- B3 Technical team confirms and verifies data of provincial government
- B4 Technical team sends preliminary results of the provinces performance evaluation to the Minister of Home Affairs; then, the Ministers of Home Affairs, as the chair of the national evaluation team, forwards these results to each province
- C1 Technical team sends evaluation results and national ranking to the national team
- C2 National team sends the final evaluation results to the President

As reflected in the Figure 7.1 above, the evaluation of local government performance using the EKPPD system involves a complex process. Thus, it took two years to complete the whole process based on experience of the first six rounds of implementation. ‘A’ is used to denote the flow of local government performance reports in the evaluation process under the EKPPD system. For example, step 1 which is represented by ‘A1’ in Figure 7.1, means the process of sending performance reports from local government to the governor by 31st March every year. The final step of evaluation which is associated with the local government performance report comes when the results of the evaluation of local government reports conducted by the national team are sent back to the regional team (A7) and then the regional evaluation team forward the result to the governor (A8) and the governor forwards the results to the mayor or district head (A9).

‘B’ represents the flow of the performance report of a province (in its position as an autonomous region) in the evaluation process under the EKPPD system. The process starts with the provinces sending their performance report to the Minister of Home Affairs (B1), and the report is forwarded to the national technical evaluation team. The final process comes when the result of the evaluation is forwarded to each province by the Minister of Home Affairs (as the chair of the national evaluation team) (B4). Finally, ‘C’ indicates the steps involved in presenting the result to the President.

Thus, the whole process will take place at three different levels: local, regional and national. The process at the 'local' level deals with collecting the raw data, completing KPIs, producing performance reports and sending the report to the governor (A1). When the process of evaluation has taken place, the regional evaluation team can ask the local government to confirm or classify or supply more data (A3). At the regional level, there are two action points in relation to performance evaluation under the EKPPD system. First, the regional government should produce its own performance report because in its position as an autonomous region, it is also under an obligation to report performance under the EKPPD system and, as indicated earlier, it should submit the report to the Minister of Home Affairs (B1).

In its position as the representative of the national government at the regional level, the regional government should conduct regional evaluation of local government performance reports before the national team carries out further evaluation later on. In Figure 7.1, this task is associated with steps 'A3', 'A4,' 'A5' and 'A8'. Finally, at the national level, the team should evaluate the regional government performance report (B2) and should also conduct further evaluation of the local government performance reports (A6). Hence, the team should provide the results of the national evaluation (for the performance of both the local and regional governments) to the president (C2), the results of the performance evaluation of the regional governments to each province (B4), and the results of the evaluation of local government performance reports to the regional evaluation team (A7). Further details of the process undertaken at different levels of government will be discussed below.

7.3 Reporting Performance Indicators

7.3.1 Reporting performance indicators by local government

As illustrated in Figure 7.1, evaluation of Indonesian local government performance using the EKPPD system begins with local government submitting its performance report to the governor. This ‘Local Government Governance Report’ (or *Laporan Penyelenggaraan Pemerintah Daerah*, or LPPD) is the responsibility of a department (known as ‘government department’) within the district/municipality secretariat; more specifically, it is the task of the regional autonomy division within the government department (see Figure 7.2).

Government Regulation No. 6/2008, Article 34 (1) requires districts/municipalities to form an assessment team chaired by the general secretary in order to implement EKPPD at the local level. Furthermore, the MoHA circulation letter No. 120.1875/OTDA, 5 September 2008 states that the assessment team should first conduct a self-assessment on the KPIs reported by all working units (SKPDs) of local government, before reporting them to the regional evaluation team. In fact, our study showed none of districts/municipalities had formed an assessment team as stipulated by the regulations. Only two municipalities⁷² (the municipality x (province A) and the municipality 1 (province C) which had formed a team appeared to have come close to addressing the concept of forming an assessment team.

⁷² Out of six municipalities and three districts or nine local governments in total.

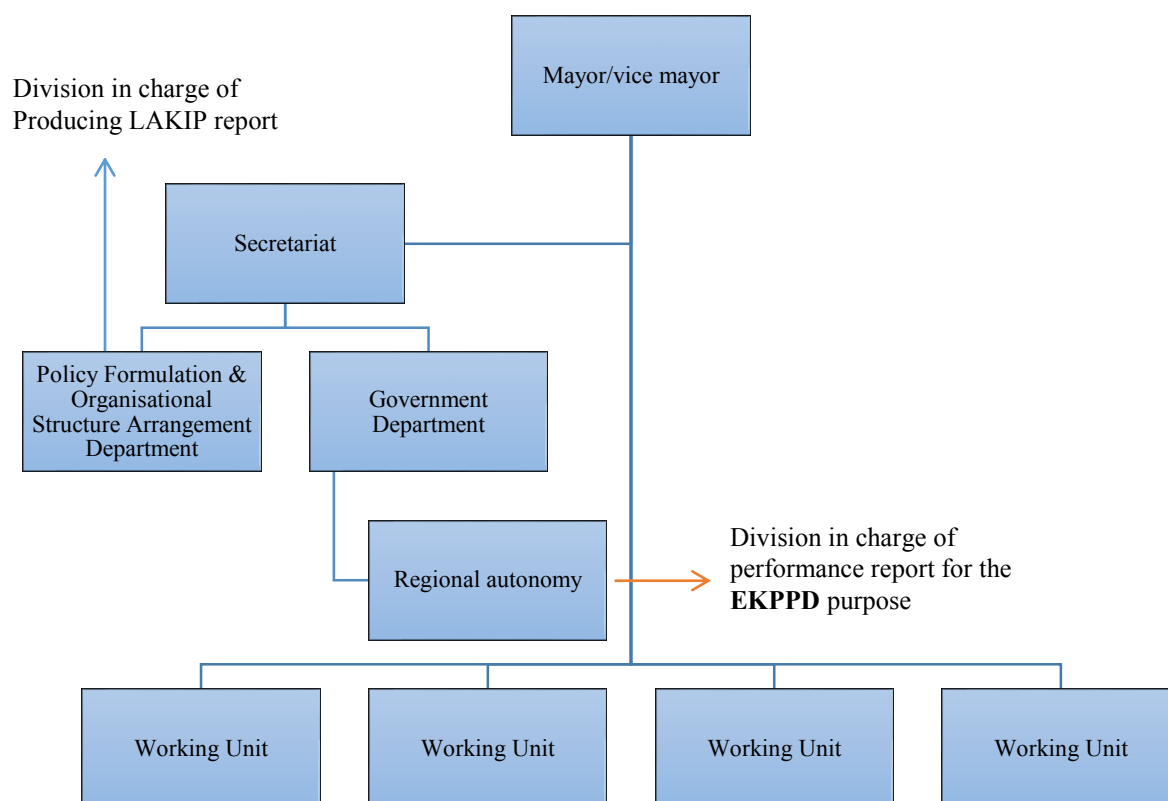


Figure 7.2 Department in Charge of EKPPD Performance Report

Source: Based on observations and the EKPPD manual

According to the practice of the other seven local governments observed, however, the collection of data to fulfil the 158 KPIs of the EKPPD was treated as an additional task of a team responsible for the *LPPD*. A more detailed explanation of the *LPPD* report is given in section 7.5 in the discussion about the regulatory framework. The team is usually formed at the beginning of the year for a period of two to three months, and contains cross-departmental members from within the districts/municipalities, including the mayor or districts head and the general secretary. The role of the regional autonomy division is to administer the performance reporting activity⁷³.

⁷³ 'Performance reporting activity' refers to the name of the item in the local budget.

Different arrangement of reporting process

Observation carried out in the three districts and six municipalities indicated that the structure of the teams and tasks distribution differed between districts/municipalities. In municipality 1 (province C) for example, the reporting team was chaired by the mayor and coordinated by the general secretary (see Figure 7.3). The team was divided into three groups: data collectors, report writers and report editors. The data collection team comprised around 30 dedicated staff selected from various elements in the municipality. The task of writing the report was given to middle level officials who were also selected from the working units (SKPDs) with the main selection criterion being the ability to write a report. Finally, all heads of the working units in the municipality 1 (province C) were involved in the team. According to key informants in the municipality, generally speaking the team worked well due to the active involvement of the mayor and the general secretary and other stakeholders.

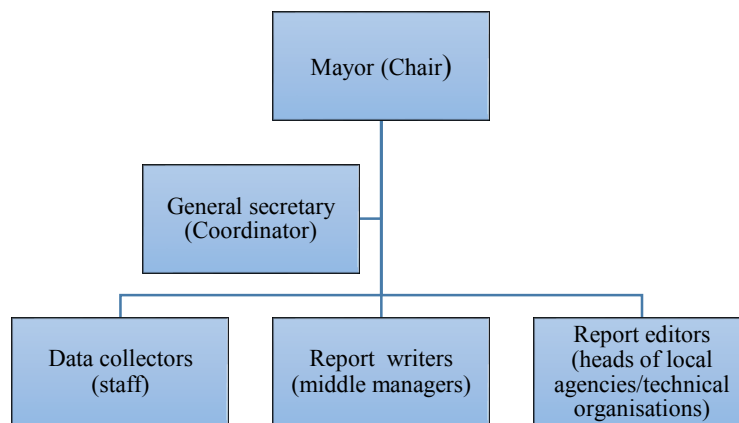


Figure 7.3 Structure of the Reporting Team, Municipality 1 (Province C)

Source: Based on interview with key informant, municipality 1, province C

The structure of the reporting team in municipality 2 (province C) was different (see Figure 7.4).

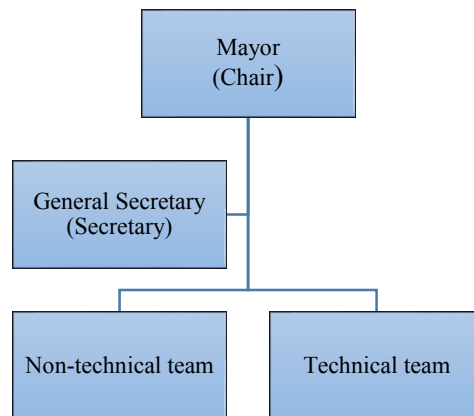


Figure 7.4 Structure of the Reporting Team, Municipality 2-Province C
 Source: Based on interview with key informant, municipality2-province C

Formally, it included the mayor and general secretary. It was divided into non-technical team and technical team members. The non-technical team involved heads and middle managers from the influential working units such as local planning and development body and finance office within the municipality. The technical team consisted of all five staff in the government department. However, according to the key informant in this municipality, the team did little work – in fact, the mayor and general secretary did not get involved at all. The non-technical team also did little; tasks were therefore done solely by the technical team (the five staff government department). Similar practice was discovered in other districts/municipalities in province C (for example, municipality 3, district 1, and district 3).

A rather different arrangement was found in district 2 (province C). Here, the formal team consisted of district head, general secretary, all the heads of the working units, and middle level officials and staff from selected working units. The work was carried out by a small number of core team members (which were mainly staff without any managerial position) and coordinated by the junior official directly handling the EKPPD reporting. This strategy was devised because he predicted that the larger team would not work effectively. The ineffectiveness of the team related to the considerably low interest and involvement of key stakeholders. The key informant (INF2/C/d2) said that the small team did all the work first and the result was then

discussed by the larger team. However, it was not easy to arrange meetings for the larger team, because of the lack of interest and low involvement of the stakeholders mentioned earlier.

Unavailability of Data and Lack of ICT capacity

To complete the 158 KPIs required at least around 800 items of data. All districts/municipalities which participated in this study faced problems such as unavailable, invalid, unreliable, incomplete and inconsistent data. Obtaining data on a timely basis was also a struggle for all the districts/municipalities studied. For example, district 2 (province C) had difficulty completing the ‘ratio of houses having building permit’ KPI (KPI 2 of the policymaker). The given formula to calculate this ratio is:

$$\frac{\text{Number of houses having building permits}}{\text{Total number of houses}} \times 100\%$$

However, the public works department (as the working unit responsible for housing in this district did not have data on either the total houses in the district or the proportion of houses which had already obtained building permits. According to INF2/C/d2, public works only has a record of the ‘number of building permits issued in a year’.

He acknowledged that a survey should have been conducted in the first evaluation using the EKPPD system to establish a baseline of unavailable data. Data could then be built up for the future evaluations. However, owing to limited time and budget this survey was not conducted. Instead, the problem related to housing data was addressed by asking each sub-district head to supply data about the number of houses in his/her area. Data about houses in every sub-district was then added-up. From the sum of houses, INF2/C/d2 arbitrarily took 75 % of the data as the ones which had building permits. The problem however, as he acknowledged, was that he did not know whether each sub-district used the same or a different method in arriving at its data. Thus, two levels of judgement were involved here. The first subjective judgment was in

counting the number of houses as the denominator in the formulae; the decision about the percentage of houses with valid building permits was also based on judgement.

INF2/C/d2 stated that he received information about a municipality which had addressed a similar problem by taking the number of residents in the municipality from the civil registration office. Then, ‘number of residents in the municipality’ was used to estimate number of houses in the municipality by assigning the arbitrary percentage. The problematic data related to this particular KPI was confirmed in an interview with the key informant of the national evaluation team. According to INF5/NG, during his evaluation he came across a municipality which equated ‘number of houses’ in the municipality with ‘number of residents.’ Analysis of KPIs adopted in the EKPPD system shows that at least four KPIs would be affected by data relating to ‘number of houses’ (see Table 7.1).

No.	Key performance indicator	Note
1.	Ratio of houses having building permits	Indicator number 2 of policymaker: peace and public order aspect
2.	Ratio of households having access to clean water	Indicator number 35 of policy implementer: housing function
3.	Ratio of habitable houses	Indicator number 37 of policy implementer: housing function
4.	Ratio of households having sanitation facility	Indicator number 28 of policy implementer: public works function

Table 7.1 Examples of Indicators Affected by Data on Housing
Source: Analysis of EKPPD KPIs

The results of the survey of 31 local governments supports the information provided by the key informant discussed earlier. The majority of respondents (74%) agreed that the fact that certain types of data had never been collected prior to the first implementation of the EKPPD, such as number of houses, was one of the difficulties with reporting KPIs (see Table 7.2):

Type of response	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree	Total
N	6	17	3	5	0	31
%	19%	55%	10%	16%	0%	100%

Table 7.2 Result of Survey Data (Part A-Q6)

Source: Analysis of survey data

As shown in Table 7.2 above, 19% of respondents answered ‘strongly agree’ and 55% selected ‘agree’ (combination of both = 74%).

In terms of inconsistent data, the most common example found in all districts/municipalities studied was that which was reported by working units with regard to benchmarking data. For example, a working unit could be wrong in reporting its budget. The data supplied by working units should have been cross-checked against the local budget issued by the finance office. Another example mentioned by key informants in all districts/municipalities studied concerned ‘number of population.’ The data owned by the districts/municipalities tended to be different from that issued by the statistics office. Where this was the case, the regional and national evaluators preferred the statistic office data. The problem with this however was that it was not made available until June every year, whereas the deadline for submitting the performance report for the purpose of the EKPPD is 31st March. There was thus a mismatch in terms of between the timeliness of report submission and the availability of the required data.

This finding was supported by the survey data (see Table 7.3 below):

Type of response	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree	Total
N	8	18	1	3	1	31
%	26%	58%	3%	10%	3%	100%

Table 7.3 Result of Survey Data (Part A-Q3)

Source: Analysis of survey data

As can be seen from Table 7.3 above, over 80% of respondents agreed (when ‘strongly agree’ is combined with ‘agree’ responses) that the dependency of certain types of data such as those related to Statistic Office data was one of difficulties in reporting the KPIs of the EKPPD.

In all districts/municipalities observed, collecting data for the performance evaluation had been handled manually: ICT infrastructure was still underdeveloped. Computer facilities were used merely to type the report but there was no application for data collection for example, or for data analysis. In district 1 (province C), a health centre located in a remote area did not have a landline connection or mobile signal. There was thus a problem of communication between reporting staff at the health centre and the district reporting team. Any clarification of specific data or request for new data took much longer than should have been necessary. In addition, the use of email for internal communication was uncommon practice. Districts/municipalities under study might use email occasionally for communication externally (e.g. with the ministries of Finance or Home Affairs). ICT infrastructure was influenced by the geography of the districts/municipalities observed; the more remote or difficult the geographical conditions, the higher the costs to establish the ICT infrastructure, which thus tended to be more advanced in urban (municipalities) than rural areas (districts).

Type of response	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree	Total
N	7	19	1	4	0	31
%	23%	61%	3%	13%	0%	100%

Table 7.4 Result of survey data (Part A-Q9)

Source: Analysis of survey data

Part A-Q9 of the survey questionnaire asked respondents' opinion on the statement: "A lack of ICT was one of the difficulties with obtaining data in a timely manner", and most respondents agreed with the statement, as indicated in Table 7.4.

Support systems in place

Data for the EKPPD was also difficult to obtain due to the limitations of the support systems in place, such as budgeting and accounting systems. For example, the local budget did not separate sources of funding for every individual activity. This problem was found in almost all districts/municipalities observed, except municipality y (province B). At the same time, local

government is required to report a ‘absorption of general allocation fund’ KPI (KPI 33 of the policymaker). The ratio is measured through:

$$\frac{\text{General allocation fund absorbed}}{\text{Total general allocation fund transferred}} \times 100\%$$

Two pieces of information are needed to calculate this ratio: (i) total general allocation funding received in a year, and (ii) residual income coming from the general allocation fund of the respected year. The total general allocation funding received in a year minus the residual income coming from the component of the general allocation funding equals the general allocation fund absorbed.

The key informant in municipality 1 (province C), however, said that by the end of the fiscal year the accounting department would not be able to specify the residual income into detail components:

From the residual income of X billion rupiah, the accounting department cannot tell how much of this X rupiah actually comes from the *general allocation fund*, *revenue sharing* or *original local income*. Therefore, as the one who is responsible to supply data relates to finance, I just used my best ability to estimate the figure based on experience working at the Finance Office for years. (Interview with INF8/C/m1 on the 10th February 2012)

Moreover, financial reports were not generated from a double entry system, but from a cash-based record; the data was then converted into an accrual financial report. This implied that local government did not have the data related to the costs of services provided.

Finally, asset management was the most underdeveloped system found in all the districts/municipalities observed. The most common problem was that there were many unregistered assets; that is, the physical assets were there but they were not recorded. Informal practice was one of reasons for this. Sometimes assets were acquired not through formal

procurement activity but were bought using budget allocated to other activities (that is, as part of expenditure for other activities). For example, the accounting department in the Finance Office purchased a new printing machine using the ‘financial reporting activity’ budget. They did this because they could get the facilities they needed faster, instead of going through the normal procurement procedure. This practice was made possible through the mark-up of budget for other items (such as meals or stationery).

Function-based versus departmental-based indicators

As mentioned in Chapter 6, in terms of the eight aspects of general administration, the latest technical guideline issued by the MoHA (Minister of Home Affairs Circulation letter No. 120/313/OTDA, 24th January 2011) specified that the KPIs should be reported according to function, not the organisational structure of local government. The Minister of Home Affairs Circulation letter No. 120/313/OTDA, 24th January 2011 was issued as a result of local government having misunderstood the EKPPD system, reporting KPIs based on local government organisation structure instead of functions run by individual working units. The nine districts/municipalities studied were not structured according to their one-to-one relationship with the functions delegated to them. For example, in the municipality x (province A), two functions (Education, and Sport and Youth) were merged into one working unit (Education, Sport and Youth Agency). Meanwhile, in municipality 2 (province C) the education function was converted into the Education Agency. In other districts/municipalities the function of education was integrated with a different function (e.g. Culture); therefore the agency is called the Education and Culture Agency.

The national evaluation team realised that local government did not understand the requirement to report the KPIs according to functions, after struggling to evaluate KPI 17 of the

policymaker. The KPI requires districts/municipalities to report budget allocated for basic services (see Table 7.5).

Measurement level	Policymaker
Measurement aspect	The harmony between the national and local government policy (3 rd aspect)
Measure or KPI number	17 th
Description of measure	Finance
Measure of achievement	The ratio of expenditures for basic public services to total expenditure
Data that need to be completed	<p>Basic public services expenditures for local budget of 201x</p> <p>(1) Education function IDR.....</p> <p>(2) Health function IDR.....</p> <p>(3) Environmental affairs function IDR.....</p> <p>(4) Public works function IDR.....</p> <p>(5) Social function IDR.....</p> <p>(6) Labour function IDR.....</p> <p>(7) Cooperation function IDR.....</p> <p>(8) Social security (police) function IDR.....</p> <p>(9) Citizens and civil registration function IDR.....</p> <p>Total expenditure for basic public services in 200x IDR X</p> <p>Total local budget of 200x IDR Y</p> <p>Ratio of public services expenditure to local budget $\frac{\text{IDR X}}{\text{IDR Y}} \times 100\% = Z\%$</p>

Table 7.5 The 17th Key Performance Indicator (KPI) of the EKPPD at the Policy Makers Level
Source: Minister of Home Affair Circulation Letter No. 120/313/OTDA, 24 January 2011

The problem emerged that the KPI was rarely reported by districts/municipalities using complete data. As described in the interview with INF5/NG, the majority of districts/municipalities had empty data at least for one or two rows (functions). Moreover, when total expenditure (Figure X) was cross-checked with the budget document of the respected district/municipality, the figure was never consistent. More detail description are provided in Box 7.1 below.

Box 7.1 EKPPD: Functions-based performance measurement system

Box 7.1 Evidence of Lack of Local Government Understanding of EKPPD System Design

After looking at the budget structure of each respective district/municipality, the evaluator discovered the reason for this inconsistency. District A for example left out data for the social security (police) function because the function was integrated with the citizen and civil registration function to become one agency. Instead, District A reported the total budget (that is, the total budget of the agency responsible for both functions) and entered the figure in row 9 that represented budget for the citizen and civil registration function only. Next, municipality B left row 7 (co-operation function) empty and reported the budget for the labour function (row 6) to be much higher than it should be. That happened because the labour and cooperation functions in municipality B were one agency which was in addition integrated with other functions (which were not included in the KPI 17). Another example, district C, reported the budget for the social function as more than double what it actually was because it had been merged with the housing function. In other words, the budget reported for the social function actually represented the budget of the social and housing agency. Variations in how districts/municipalities organised functions caused intense confusion for evaluators during the first two evaluations using the EKPPD system.

Source: *Interview with INF5/NG on 26 December 2011*

After the technical guideline was revised and it was made clear that local government should separate the different functions (where working units run more than one functions), stakeholders at the local government level experienced a state of great confusion. All key informants in the districts/municipalities studied said that this latest requirement was the most challenging to fulfil. Interviews with the key informants in five municipalities (the municipality x at province A, the municipality y at province B, and the municipalities 1, 3 and 4 at province C) were supported by the results of an observation of a workshop arranged by the government bureau of province C in early February 2012. In the workshop, delegates representing the 19 districts/municipalities of province C raised their concerns about this latest requirement. They expressed their confusion and worries about the difficulty of reporting KPIs according to function, and asked for guidance from the regional and national evaluators (acting as the key speakers in the workshop) in terms of how allocation should be made for KPIs related to staff

and budget. Explanations provided by the speakers however were inconsistent and confused the delegates even more. A speaker from the national evaluation team for example stated that:

We are not concerned so much about methods you use to make an allocation. As far as your districts/municipalities provide us with the performance report with KPIs, that is enough.

He added that the staff and budget of the secretariat of working units could be distributed equally to different functions. At the same time, the speaker from the regional evaluation team suggested that the secretariat's budget and staff (where working units were running more than one function) should be allocated to the dominant function. For example, if a working unit runs both education and culture functions simultaneously, the staff and budget of the secretariat should be allocated to the education function.

In fact, different allocation methods had been used in the nine districts/municipalities observed. Municipality 2 (province C) for instance did not follow the latest requirement to report KPIs based on function because of their limited capacity. As mentioned earlier, the EKPPD performance report in this municipality was handled by the regional autonomy division alone. The middle level official in charge of the EKPPD implementation had no understanding of the system and delegated all the technical work to junior departmental staff. With limited personnel to deal with the data, it was beyond their capacity to analyse the programmes of the different working units contributing to the achievement of the specific function. As a result, they continued to report KPIs referring to the organisational structure of the municipality; some data might have thus been under- or over-represented.

For example, for KPI 17 (shown in Table 7.5 above), budget allocation for the environmental function was under-represented, while the budget for public works was over-represented in the municipality 2. It was correct that the environmental office carried the primary responsibility for the environmental function. Two main duties of the environmental office are (i)

environmental governance and environmental impact, and (ii) pollution control and environmental management. However, environment maintenance was carried out by public works. Moreover, public works also had a department dealing with drainage water resources infrastructure and liquid waste management. Programmes of this department also can be associated with the achievement of the environmental function. As mentioned earlier, because of limited time and resources, programme analysis could not be carried out. Thus, municipality 2 reported budget allocated for the environmental function referring to the budget of the environmental office only. The budget allocated to programmes owned by public works which also contributed to the environmental function was not included.

Another example occurred in municipality 1, where one local agency is called ‘mining, industry, trade, cooperation and SMEs and capital investment.’ The key informant at this municipality described the allocation method used to deal with indicators related to staff management (Aspect 4 of policy implementer) as follows. The agency of mining, industry, trade, cooperation and SME and capital investment had 40 staff, including the head of the agency. The agency’s secretariat employed 10 staff and each department⁷⁴ employed six staff. First of all, the 10 staff employed by the secretariat were equally distributed to each function. This means that each function received two additional staff. With the distribution of staff from the secretariat, each function was assumed to be responsible for eight staff. The head and the secretary were then added to each function; each function thus also received two more additional staff. The staff responsible for running the functions of mining, industry, trade, cooperation and SMEs, and capital investment was thus reported as 10 personnel for each function instead of six personnel.

⁷⁴ Each department is equivalent to a specific function. For example, the department of ‘mining’ is equivalent to ‘mining function’

The implication of allocating staff in this way was that total staff in the agency reported higher (50) than the actual (42). The working units with similar characteristics (as shown in Figure 7.5, municipality 1 at province C) were several, not just one. When the same procedure was applied to all of them, the cumulative differences in terms of number of staff became significant in comparison to the actual number of staff registered on the staff management body. This became a problem during the evaluation. Evaluators assumed the KPI reported by this municipality to be invalid and unreliable, as commented on by the key informant (INF5/C/m1).

Municipality 3 of province C however applied a different allocation method. Here, the key informant reported that working units were instructed to report the number of staff according to function while maintaining the total number of staff as the same as the actual number. INF3/C/m3 acknowledged that she ignored the different approach that might be taken by the different working units. Table 7.6 summarises some KPIs that would be directly affected by the different methods selected to allocate resources (budget, staff and assets).

No	Indicator	Note
1.	Expenditure for basic services	Harmonisation between the national and local government policy (policymaker): finance aspect
2.	Number of civil servants to total civil servants in the district/municipality	Staff management (the fourth aspects of policy implementer)
3.	Number of officials that have fulfil training requirement	
4.	Number of officials that have fulfil grade requirement	
5.	Proportion of budget realisation to total local budget	Financial management (the sixth aspects of policy implementer)
6.	Capital expenditure to total local agency/technical organisation's budget	
7.	Maintenance expenditure to total goods and services expenditures of the local agency/technical organisation	
8.	Maintenance expenditure to total expenditure of the local agency/technical organisation	
9.	Unused assets	Asset management (the seventh aspect of policy implementer)

Table 7.6 Examples of Indicators Affected by the Different Allocation Methods

Source: Analysis of EKPPD KPIs

Lacked of training/technical guidelines

The lack of training and technical guidelines was complained about in all districts/municipalities studied. Some key appointment holders received training just once within the course of four times of evaluation. As mentioned earlier, the key appointment holders of the municipality 2 of province C did not have any understanding of the system at all and the tasks were therefore delegated to junior staff. A similar problem was also encountered in district 3 of province C. The head of government department was new and acknowledged that he understood nothing about the KPIs. The rotation took place within the period of the EKPPD reporting process.

A similar problem occurred in district 1 of province C. Here however, the new head of regional autonomy division managed to attend the workshop arranged in February 2012. Some key appointment holders from other districts/municipalities had attended training twice or three times but said that this was not enough. The fact that none of key informants in the districts/municipalities studied were aware whether (i) they could develop their own measures for optional functions, (ii) they should carry out self-assessment processes, and (iii) they should form the appraisal team at a local level was evidence of insufficient training.

One example of lack technical guidelines related to the first KPI at the level of policy implementer, as described by a key informant from the municipality at province B. This KPI aims to measure consistency between national and local level policies. More specifically, it refers to the ratio of programmes in each working units which support the national programmes. To complete this ratio, local government has to consult the list of national programmes. However, up until the deadline to submit the performance report (31st March 2012), the nine districts/municipalities reported that the list of national programmes was not available. This kind situation confused key appointment holders at local government level in terms of what

was to be done with the KPI and what should be referred to. Considerable efforts were made to contact the regional and national evaluation teams and ask for the list but they did not receive it.

Another problem highlighted by key informants in all the districts/municipalities studied was that the technical guidelines tended to be advised quite late. Sometimes, the new guideline was informed when districts/municipalities had already collected the data (such as in municipality 4 of province C), or even almost finished the performance report (the experience in the municipality of province 1). Both municipalities referred to the guideline issued by MoHA on the 24th January 2011 (specifying KPIs were to be reported according to function). Moreover, the guideline only provided an example of a matrix for working units running two functions. This confused key appointment holders at local government level about how to deal with a working unit running multiple functions, as expressed by INF5/C/m1. This informant also reported that on one occasion, municipality 1 of province C representatives consulted the national evaluation team in Jakarta on this problem. The response was however unexpected. Instead of offering a solution, the national evaluator questioned them in response, ‘Is there any such kind of practice [merging multiple functions at one agency] at the local government?’

Many of the KPIs have also been perceived by local government stakeholders to be poorly defined or ambiguous. This lack of clarity caused difficulties in determining (i) what data should be collected, and (ii) what the sources of the data were. Given the limited human resource capacity at the local government level (especially of those staff dealing with reporting tasks), the ambiguous KPIs and lack of technical guidelines made the situation worse. Some KPIs relied on the subjective interpretation of staff in charge of supplying data. For example, KPI 29 of the policy implementer (minimum service standard for public works function) is called ‘width of the dirty area.’ The key informants in most districts/municipalities involved in

this study said that they did not know how to define ‘the dirty area’; the EKPPD manual does not provide an operational definition. They also did not know which standard to follow. Some indicators considered to be ambiguous are listed in Table 7.7 below.

No	Indicators	Note
1.	Width of dirty area	KPI 29 (minimum service standard for public works)
2.	Width of green space area	KPI 30 (minimum service standard for spatial planning)
3	Houses using clean water	KPI 35 (minimum service standard for housing)
4.	Dirty housing area	KPI 36 (minimum service standard for housing)
5.	Habitable houses for living	KPI 37 (minimum service standard for housing)

Table 7.7 Examples of Ambiguous KPIs (Local Government Perspective)

Source: Interviews with key informants in nine districts/municipalities

The first four KPIs listed in Table 7.7 above represent unclear operational definitions. The last KPI however reflects the low capacity of human resources at local government level. Although an operational definition of ‘habitable houses for living’ is provided in the Minister of Housing Regulation No. 22/2008 on the Minimum Service Standard for Housing, none of the key informants from the nine districts/municipalities studied stated that they have referred to this definition while collecting data to be reported for KPI 37. Unclear operational definitions of KPIs and low capacity of human resources at local government level thus eventually led to different interpretations. Municipality 2 of province C for instance relates ‘Houses using clean water’ only to those using water supplied by a clean water company. District 2 of province 3 however includes villagers using hot spring water in determining the ratio. For the KPI related to green area, the municipality of province 2 uses data from a satellite image to determine the width of green space area in the city; municipality 2 of province C determined it manually by including all city gardens, areas along the railways, river banks, rice fields and swamp areas.

The key informant in municipality 4 of province C reported that the majority of staff in charge of supplying EKPPD data in working units did not understand what the minimum service standard means. They did not know whether there were several ministry regulations on

minimum service standard for different sectors⁷⁵. One KPI requires information about whether a minimum service standard has been implemented or not yet. If districts/municipalities have implemented the minimum service standard, they are also required to provide a list of functions in which the standard for the respective functions has been implemented (see Table 7.8).

Measurement level	<i>Policymaker</i>
Measurement aspect	<i>Harmony and effectiveness of relationship between government and local government and among local government themselves in developing regional autonomy (2nd aspect)</i>
Measure number	11st
Description of measure	Implementation of minimum service standard
Measure of achievement	Number of functions in which minimum service standard for the respected functions has been implemented: 1) Function... 2) Function... 3) Function... 4) Function... 5) Function... 6) Function...
Supporting evidence	(e.g. circulation letter of head of local government)

Table 7.8 Indicator on EKPPD minimum service standard implementation

Source: Minister of Home Affair Circulation Letter No. 120/313/OTDA, 24 January 2011

INF3/C/m3 also said that the reporting staff of working units at times could not differentiate between those KPIs which require budgeted figure and those which need realisation figures. INF3/C/m3's statement was supported by the results from the survey whereby the majority of respondents (78%) agreed that the capacity of human resources at the level of working units influences the way in which they interpret KPIs (see Table 7.9):

Type of response	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree	Total
N	7	19	1	4	0	31
%	23%	61%	3%	13%	0%	100%

Table 7.9 Result of Survey Data (Part A-Q8)

Source: Analysis of Survey Data

⁷⁵ Up to now, the government has issued a 'Minimum Services Standard' for 13 sectors.

As can be seen from Table 7.9 above, none of the respondents selected ‘strongly disagree’, only 13% disagreed and 3% were neutral.

Furthermore, the problems discussed earlier are also supported by the survey data for the questions in Part B of the questionnaire which asked per respondents’ perceptions on the design of selected measures or KPIs (one question), issues related to formats (two questions), reporting workload (one question) and lack of technical guidelines (one question). For the five questions, none of respondents selected ‘strongly disagree’. After collapsing the responses for the options ‘strongly agree’ and ‘agree’, the results of the survey for the five questions in Part B are presented below

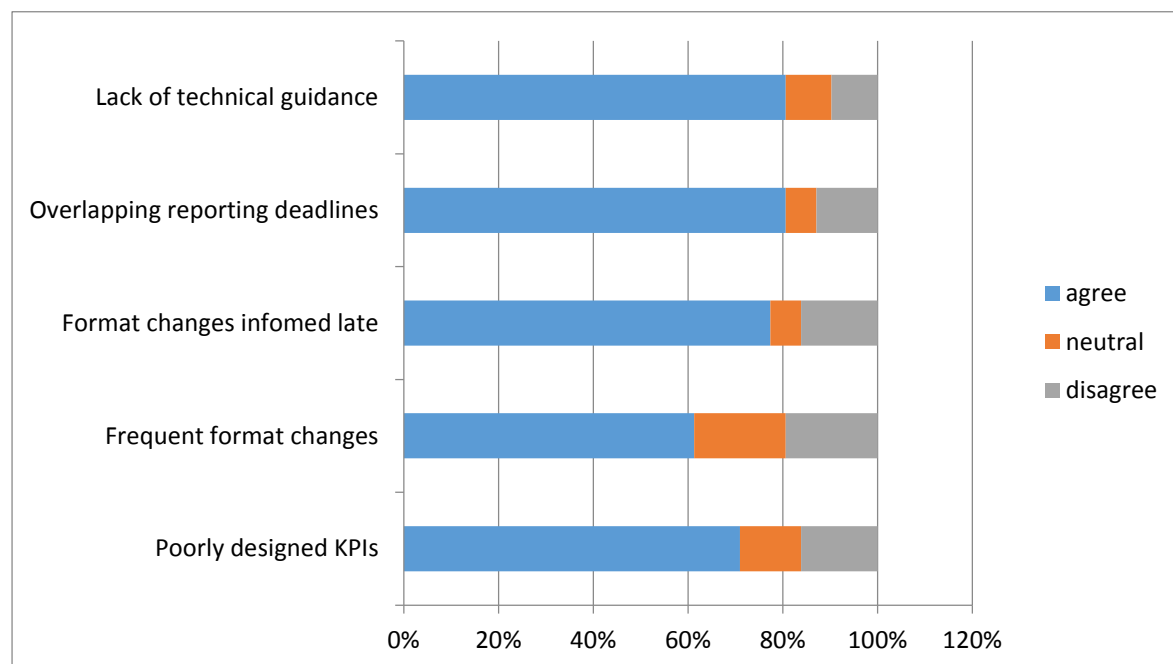


Figure 7.5 Results of Survey Data (Part B, Q10-Q14)
Source: Analysis of Survey Data

As reflected in Figure 7.5 above, for all questions, majority of respondents agreed that poorly designed KPIs, frequent format changes, format changes that were informed late, overlap of reporting deadlines and lack of technical guidance caused difficulties in reporting performance under the EKPPD system.

One respondent provided answers to the open-ended question which related to the issue of overlapping performance reporting:

In the future, it will be better if the format for the LAKIP report and EKPPD report could be made as one report only (mu.4.m)

The point that they made was that the reporting burden for local government would be reduced if there were fewer overlapping reporting requirements; and this would help them to be able to meet their reporting deadline.

Another comment in the open-ended survey question was connected to the frequent format changes and the timing to inform the changes:

Any change in KPI should be informed as early as possible before we [local government] start collecting data... and a clear explanation about the changes should be provided. (ss3.d)

Hence, comments related to lack of training were also provided by two respondents:

There is a need for training on how to fill in KPIs for all working units to reduce mistakes made by working units in completing data related to obligatory and optional functions. (kt3.d)

The EKPPD team should give explanation and guidance to make the task of completing KPIs easier. (ks1.d)

Thus, it is clear that the results of the survey data on 31 local governments covering ten provinces supported the results of the interviews, even though the interviews were concentrated in one province (i.e. province C).

Work system and culture

One difference which every district/municipality under study observed both prior and post-decentralisation is the occurrence of frequent staff rotation, post-decentralisation. The key

informants mentioned that rotation could take place twice or even three times a year. The key appointment holders in charge for the EKPPD might hold their post for only three to six months before being moved to another position. Seven out of nine heads of government department in the districts/municipalities studied were new when the field visits took place. In terms of staff, only in four districts/municipalities did this study find that the staff who had been dealing with the EKPPD since the first evaluation had remained constant. One problem, which was part of the work system and culture applied in the districts/municipalities, was the lack of a mechanism to hand over tasks and responsibilities when rotation took place. The staff member moving to a new place took everything with them, and the replacement staff member could find nothing as reference. The key informant at district 2 stated:

I heard that the previous head of department was invited to attend the socialisation of the system. He must have the manuals. But when I moved to this position, I did not see any of them. I just learned how to make the report from examples of the previous report. (Interview with INF2/C/d2)

The issue of high frequency of staff rotation and its implication for EKPPD data supply was mentioned by the key informants in all the districts/municipalities studied.

As mentioned earlier, data used to complete the KPIs tended to not come from an established database system but rather was collected from scratch, as database management systems of working units were still underdeveloped. Some data was based on prediction as the data required was not available. In addition, there was no reliable baseline data when the first evaluation took place in 2008. In the nine districts/municipalities observed, besides no baseline data being established, there was also no effort undertaken to build up the data obtained for the first evaluation for the purpose of subsequent evaluations, except in the municipality of province A. In other words, the practice of collecting data from scratch happened every year (and every year districts/municipality went through the same struggle to collect data). High staff rotation was one of explanations for no learning process taking place; in addition,

databases had never been established at local government level. Rotation of staff twice or three times a year may have meant that key appointment holders had insufficient time to introduce a change and no incentive to improve as they knew they would not hold their position for long.

Two items from the survey data are relevant to support the discussion about ‘work system and culture.’ The first item (Part A-Q7) asked the respondents’ opinion regarding the extent that they agreed or disagreed with the statement: “High frequency of staff rotation, including staff managing data at working units, was one of difficulties in reporting KPIs because data tend to be attached to the individual holding the data”. 60% of respondents stated that they agreed with the statement. This result demonstrated how work systems and cultures which form part of institutional factors can influence technical factors such as availability of data.

Part B-Q13 (“the timeliness of reporting KPIs of the EKPPD is the same as for other main reports that local government should produce: financial reports, accountability report of district head/mayor to local parliament, and LAKIP),” besides providing an indication of the heavy reporting workload for local governments that must submit many kinds of major reports by 31st March, the response to this question can also be connected to the influence of the work system and culture. This question was included after discovering the way in which things were done at local government settings; reporting activities for different purposes are conducted in the form of ‘project teams’. Senior officials and skilled officials tended to be involved in all project teams. Given the same deadline to finish all the reports caused them to make them a priority: what is seen as more important will get done first. As can be seen from Figure 7.5 presented earlier, 81% of respondents agreed that overlapping reporting deadlines caused difficulties for them in reporting the KPIs. This point will also be discussed further later (see appreciation to the EKPPD system).

To conclude, several factors that have been discussed above eventually affected the reliability and comparability of the KPIs reported by local government to be evaluated as displayed in Figure 7.6. The central problem of reporting KPIs by local government related to the availability of data. The availability of reliable, valid, and complete data in a timely manner has been affected by several factors that include ICT, budget, support systems in place, training and technical guidelines and work system and culture. I used a bidirectional arrow between budget and stakeholder support as stakeholder support, particularly the commitment of elected leaders, can significantly influence budgetary allocations to support the activity of collecting data to complete the KPIs. The motivation of stakeholders involved in the reporting KPIs was also influenced by the availability of budgetary funds to support the activity. The difficulties in obtaining reliable, valid, and complete data on a timely basis caused key appointment holders at local government to rely on estimated data. Data estimation involved subjective judgments.

The second major challenge in reporting KPIs came from the system design of the EKPPD itself. Firstly, timeliness did not match with the availability of data. Secondly, the measurement was designed as a functions-based system whereas the data was available according to department. As a consequence, it was necessary to split or to merge data related to a specific KPI from different departments (working units) to arrive at the data according to functions to complete the respective KPI. Due to a lack of common understanding among stakeholders which related to a lack of training and technical guidance, key appointment holders of different districts/municipalities had used different allocation methods. The use of different allocation methods affected the comparability of the KPIs reported by different districts/municipalities. The choice of method was influenced by subjective judgments.

Poorly defined, some of the KPIs also meant that subjective judgments were unavoidable. The capacity of key appointment holders, which was connected to training and technical guidelines,

affected the way judgments were made. Subjectivity also came from different approaches to managing the EKPPD data collection process were applied in the districts/municipalities studied. Some teams were effective; some were not. The effectiveness of the local team influenced its ability to collect more valid, reliable, and complete data and to conduct better analysis before using the data to fulfil the KPIs. The quality of data collected by a single worker under pressure (as occurred in the municipality of province B) could hardly be compared to the quality of data collected by thirty motivated personnel (as in municipality 1 of province C). The effectiveness of the local team was influenced by the involvement of the district head/mayor, which could not only compel team members to participate actively but could also determine the amount of budget allocated to support the data collection process. The budget in turn determines (i) the facilities which the team can afford to support the activity, and (ii) the size of the team (the bigger the budget, the more personnel can be involved). Facilities available to support the data collection process influence the motivation of the personnel involved; the effectiveness of the local team was also influenced by the qualifications of personnel involved. As the local team changed every year, the personnel involved could also change every year.

The involvement of subjective judgments in the process of data collection for the EKPPD KPIs in the districts/municipalities studied showed inconsistency with the system design. The new performance measurement initiative adopts six principles namely specific, objective, continuous, measurable, comparable and accountable (Government Regulation No. 6/2008, Article 3). Data from interviews, observations, and documents is supported by data from survey questionnaires in 31 districts/municipalities.

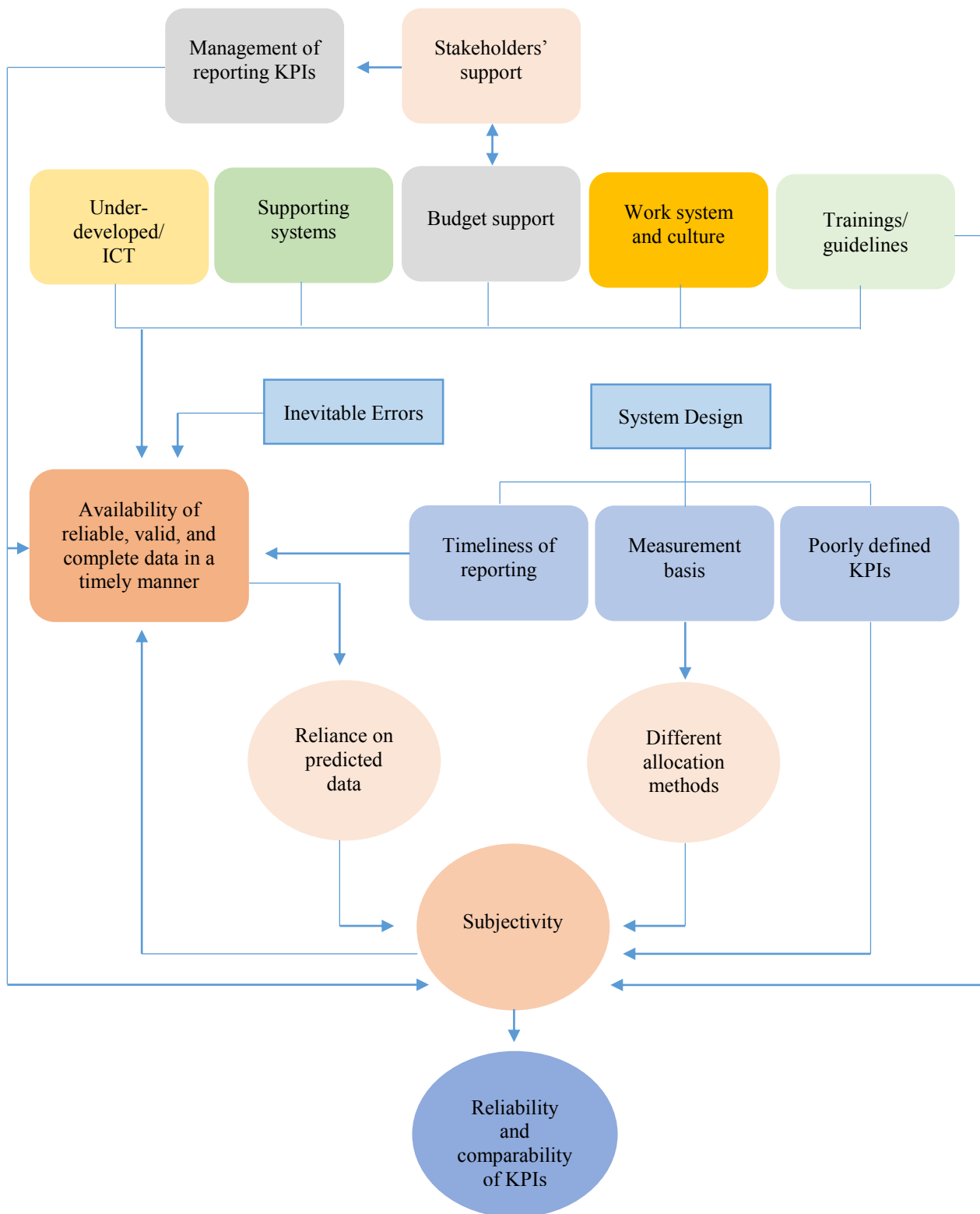


Figure 7.6 Factors Influencing the Reliability of the Performance Indicators
 Source: Developed by author, based on findings

7.3.2 Reporting performance indicators by regional government

The redefinition of decentralisation in Indonesia through Law 32/2004 includes clarification of the role of each province as (i) an autonomous region, and (ii) a representative of the national government at the regional level. Thus, in relation to the EKPPD, provinces play two roles: as the target of evaluation and at the same time in charge of conducting evaluation at the regional level. A province is made a target of evaluation in relation to its position as an autonomous region, whereas responsibility for carrying out regional evaluation relates to the governor's position as representative of the president at the regional level. The process of EKPPD implementation in terms of the first role is described and discussed below. Description and discussion in the relation to the second role is provided in the next point.

Key informants at regional government level reported that the biggest challenge for provinces when reporting KPIs was timeliness. The deadline for local and provincial governments to submit their reports was the same, whereas KPI provinces are dependent on results from the KPI districts/municipalities within its jurisdiction. As a key informant of province D pointed out, although the provincial government tried hard to encourage districts/municipalities to submit their report earlier, the result was far from the expectation. The majority of districts/municipalities submitted their reports right on or close to their deadline (31st March) or even beyond 31st March. This fact was acknowledged by key informants from the other two provinces (provinces B and C).

The formation of a province and the districts/municipalities included in its jurisdiction is carried out according to law. Province B for instance consists of 24 districts/municipalities, province C comprises 19 districts/municipalities, and province D has 15 districts/municipalities. The issue of reporting KPIs is that at provincial level, they represent the performance of all districts/municipalities within its jurisdiction. For example, the 'net

enrolment for elementary education of province C's KPI must reflect the net enrolment for elementary education in the 19 districts/municipalities; no district/municipality should be excluded. As a consequence, data from all 19 districts/municipalities needed to be received before province C could report on its KPIs. Any exclusion of data of any district/municipality violates the law.

In their role as autonomous regions, provinces were placed in an extremely difficult position by the system design of the EKPPD. As mentioned above, indicators for a province depended on those which were reported by the districts/municipalities within its jurisdiction. However, a problem emerged from both local and provincial governments being given the same deadline to report their indicators. Having the same deadline as local government submitting its performance report means that the regional government will never be able to meet its deadline. In province C for example, by 31st March 2012, at least two districts (districts 2 and 3) deliberately delayed their report submission. District 2 submitted its report in April 2012 because the key appointment holder in charge of EKPPD reporting was overloaded with work. Meanwhile, district 3 had to delay report submission to April 2012 because of its key appointment holder being on maternity leave. Province C thus had to wait for at least two districts to submit their report and over-ran its deadline by a month. In province B, some of the 24 districts/municipalities deliberately delayed submission of its indicators until June 2012, giving as the reason (as reported by INF1/B that they were waiting for the audited financial data.⁷⁶ Province B was therefore unable to complete its performance indicators by the deadline.

⁷⁶ Financial year ended 31st December. Then, the production of performance measurement data for the EKPPD would start by January of the following year and finished by 31st March. The performance data reported covered the same period as the financial year (January-December).

7.4 Evaluating Performance Indicators

7.4.1 Regional Evaluation

Regional team and the different approaches

According to the EKPPD manual (MoHA circulation letter Number 120.04/2290/OTDA, 27th August 2009), the governors form the regional evaluation team. This team can involve elements such as (i) the government bureau at the governor's office, (ii) the regional inspectorate, and (iii) the regional office of the financial and development supervisory body. Observations in two provinces (provinces B and C) showed that the two regional teams had undertaken different approaches.

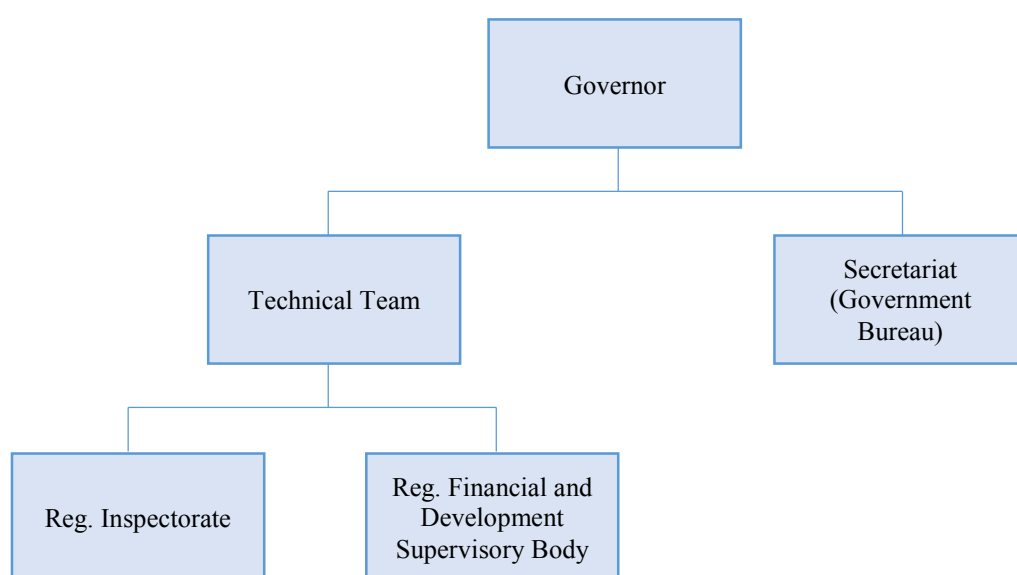


Figure 7.7 Organisational Structure of Regional Evaluation Team in Province B

Source: Based on interviews and observations at regional evaluation team at Province B in January 2012

As shown in Figure 7.7, the evaluation team of province B was divided into the secretariat (government bureau) and the technical team (regional inspectorate and financial and development supervisory body). The secretariat facilitated communication between the technical team and local government; the technical team conducted the technical evaluation.

The 24 districts/municipalities within province B were grouped in such a way that allowed a district/municipality to be evaluated by members of technical team from both elements (the regional inspectorate and the financial and development supervisory body) (see Figure 7.8).

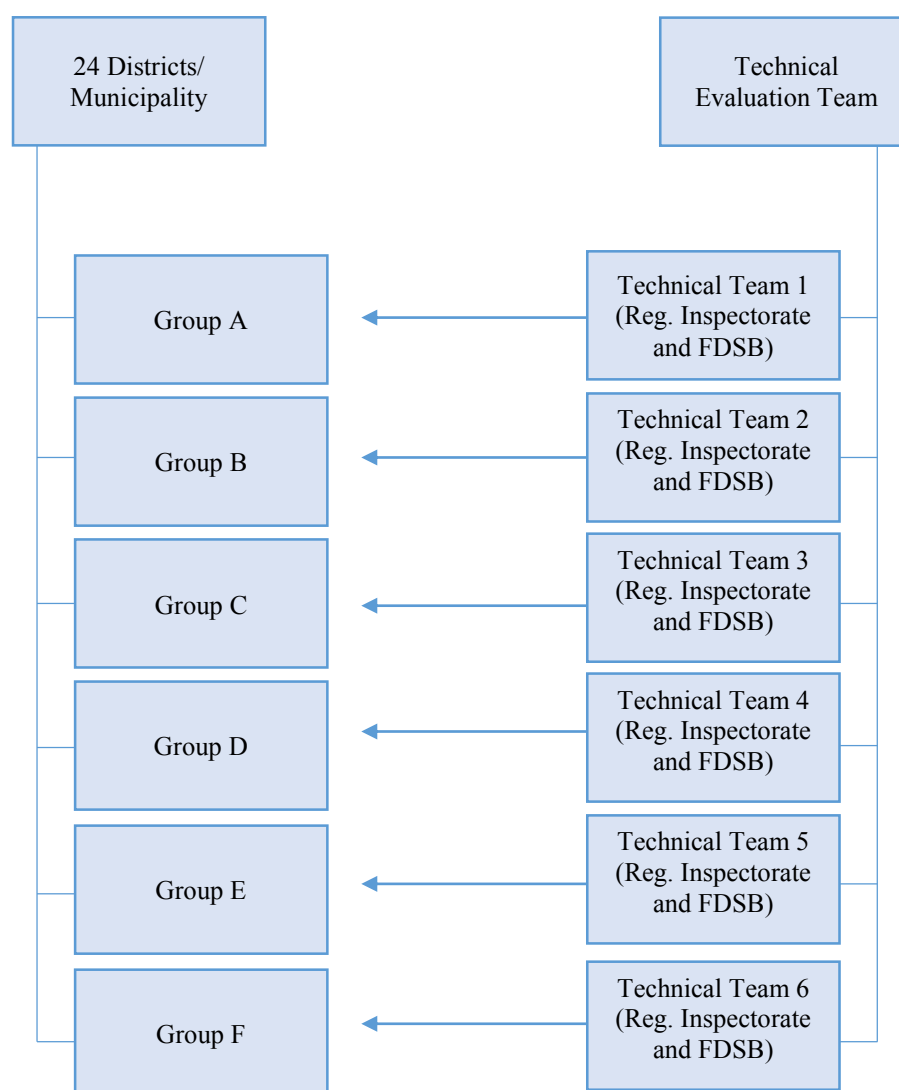


Figure 7.8 Task distribution of the Regional Evaluation Team in Province B

Source: Interview with INF1/B and INF2/B

Figure 7.9 shows the approach used by the regional evaluation team of province C. The team distributed the evaluation tasks as follows: the 19 districts/municipalities were grouped into three: group 1, 2 and 3, consisting of six, six and seven districts/municipalities respectively. Each group was then assigned to one element of the evaluation team (see Figure 7.10).

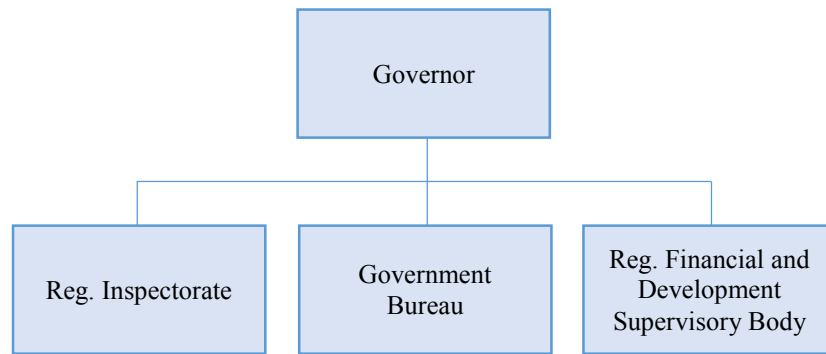


Figure 7.9 Organisational structure of C regional evaluation team
Source: Interview with INF2/C

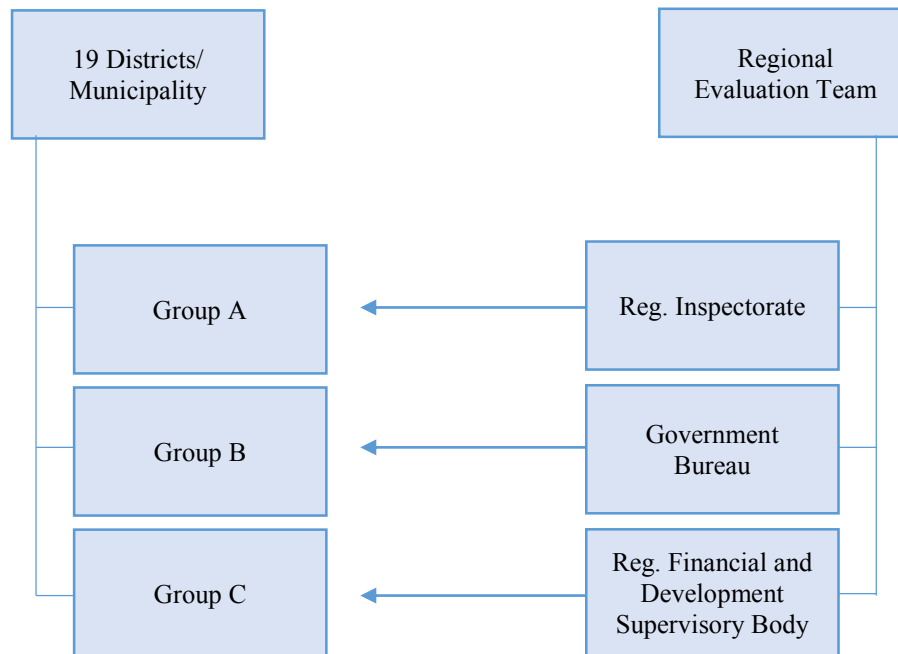


Figure 7.10 Tasks distribution of the WS regional evaluation team
Source: Interview with INF2/C.

According to the interview with the key informant from province D, in this province the regional inspectorate took a more active initiative than the other two elements.

Data problems

As discussed in point 7.3.1, data needed to complete the KPIs of EKPPD was problematic in terms of reliability, validity, completeness, and timeliness. This was confirmed in the

investigation undertaken at the regional government level. For example, the key informant (a member of the regional team in province B) described how districts/municipalities had wrongly reported an indicator requiring data in terms of *quantity* as data in terms of *monetary*. Moreover, data reported was often very confusing as the evaluators could not see the rationale governing where the figures came from. For example, when numbers were added up the result did not tally with the reported figure. In other words, arithmetical errors were common. During investigation at the local government level this research found evidence of this type of error (see Table 7.10).

Expenditures for basic public services is divided with total expenditure x 100%	1) Education	211,327,496,204.00	0.96% → This should be 63%
	2) Health	53,159,856,142.00	
	3) Environmental affairs	2,483,357,805.00	
	4) Public works	70,078,843,466.00	
	5) Social	3,705,256,223.00	
	6) Labour	-	
	7) Cooperation	5,299,124,075.00	
	8) Social police	3,000,904,080.00	
	9) Civil registration	-	
	Total expenditure for basic public services	5,377,194,291.00	
	Total expenditure in local budget	557,648,215,846.00	

Table 7.10 Extract from District 3 (Province C) Performance Report
Source: LPPD report, district 3, 2011

Table 7.10 shows an extract from KPI 17 of the policymaker reported by district 3 in province C. In fact, this KPI contained a miscalculation error. Firstly, district 3 had miscalculated the total expenditure for basic public services, stating it to be IDR5,377,194,291.00. The correct figure should be IDR349,054,837,995.00. This meant that the ratio of expenditures for basic public services to total expenditures of the district was calculated to be **0.96%**, **when it** should be **63%**.

Data problems resulted caused double jobs of the regional evaluators. Firstly, they had to provide one-to-one mentoring for the key appointment holders at the district/municipality level, offering guidance on how to fill in the indicators, what data to use and where to get the data from. Then, after the reports were revised and the data completed, evaluation could take place. An evaluator of the regional team in province B commented that their work was more like an operator's job (namely, to recalculate most of the data reported by local government before it could be inputted into the evaluation template). Moreover, as the key informant on the evaluation team in province C (INF3/C) commented, any request to local government for additional data or clarification of data obtained a very slow response. Local government officials frequently ignored the request, which could cause long delays in completion of the evaluation. The informant added that in contrast, the local government attitude to the audit process meant that auditors tended to receive respect and attention from the auditee.

Flawed scoring rules

As described in Chapter 6, the EKPPD employs a scoring system from zero to four. This research found that a problem with the scoring system was the inability of the system to differentiate between an indicator with a positive meaning and one with a negative implication. In other words, for this particular indicator the system is not able to differentiate between 'good' and 'bad' performance. This flaw can negatively affect a particular district/municipality with a good performance while benefiting others which do not necessary perform better (as experienced by municipality 1 at province C). The ratio of 'environmental cases solved in a year' is one of the indicators used to measure the performance of local governments in the field of the environmental affairs with a given formulae:

$$\frac{\text{Number of environmental cases solved for year } X}{\text{Number of environmental cases for year } X} \times 100\%$$

For the 2011 evaluation, municipality 1 reported ‘no’ environmental case happened during the fiscal year of 2009 (the year for which performance was being evaluated). When a zero case was input into the equation above, the result was undefined. The evaluation template automatically assigned ‘zero’ score to this KPI and it was treated in the same way as a ‘blank indicator.’ The issue about the weakness in the system design was also indicated in a response to an open-ended question in the survey questionnaire:

The key performance indicators should be evaluated, include the formulae used in the scoring process, because there are some indicators, when it is completed and then is put into the formulae, it reduced the score obtained, which logically should be the opposite. (INF5/C/m1)

Problem with evaluation template

The evaluation uses a simple template, designed using Microsoft Excel. To control data input, the system uses a ‘IF’ function. Taking the example of one of the KPIs for the education sector (KPI 13):

$$\frac{\text{Number of new students at year 10}}{\text{Number of students completed year 9 from previous academic year}} \times 100\%$$

The logic of the evaluation template was that the maximum value of the ratio = 1 or 100%. If the ratio was higher than 1, the evaluation template automatically rejected the data. This means that the data cannot be inputted and a score cannot be assigned. If this happened, the evaluator simply assumed that the data reported by local government was invalid.

The experience of municipality 3 in province C however showed that it was possible for the ratio to be higher than 1. The municipality 3 has a policy of free high school education (although many neighbouring districts/municipalities still charge a fee). As a result, many students from outside the area enrolled in the municipality 3. That is why students enrolling at senior high school (Year 10) was much higher than the number who completed junior high

school (Year 9) in this municipality. In addition, students who completed their junior high school in this municipality had the choice to enrol in senior high school elsewhere. The key informant from the municipality 3 said that the evaluator had arrogantly claimed that they had reported invalid data and the evaluators forced them to revise the data.

Scope of regional evaluation

Ideally, evaluation carried out at the regional level should be a complete evaluation, starting from analysing data reported by local government, inputting the data into the evaluation template, assigning a score and determining the ranking of each local government regionally. However, this was changed because of what happened in province B during the 2010 evaluation. There, districts X and Y were ranked sixth and ninth respectively within province B. However, the result of national evaluation had placed the district X at the lower position than district Y. This triggered a protest from district X. According to INF3/B the head of district X complained that the national evaluation had undermined the result of the regional evaluation.

The finding above was supported by evidence from two other sources: documentary analysis and survey data. First, an article in Kompas published on 2nd May 2012 reported that the district head of West Manggarai protested the results of the EKPPD announced by the national government as the result placed his district in a lower ranking than the result of the regional evaluation announced by the regional evaluation team. Among the 21 districts and municipalities within Nusa Tenggara Timur province, the district of West Manggarai was ranked as the 12nd performer with a performance score of 2.146, which was categorised as a ‘high’ performer. However, the national evaluation team placed it as one of six ‘low’ performing local governments for the 2011 evaluation. The district head argued that the national evaluation ideally supported the result of the regional evaluation team instead of undermining it (cf. Kompas, 2nd May 2012). Second, in a response to the open-ended question

in the questionnaire, one survey participant highlighted the inconsistent results of evaluations conducted by the regional and national evaluation team. This led to confusion regarding which one the local government should use as a reference (I.R1.D).

Since then, the determination and announcement of regional ranking was discontinued; only national ranking would be announced. The responsibilities of the regional team are limited to analysing the data reported by local government, inputting it into the evaluation template and sending it to the national evaluation team. Thus, in the last evaluation (2011), the regional evaluation team no longer assigned scores or determined regional ranking.

Influence of subjectivity

As well as using a desk-evaluation approach, the EKPPD process includes the use of common sense and site visits. Districts/municipalities under study report different experiences from year to year in relation to site visits conducted by the regional or national evaluation teams. For example, for the 2010 evaluation municipality 1 at province C received field visits from both evaluation teams. The teams cross-checked all the data, asked to meet directly with the key appointment holders from local agencies/technical organisations supplying the data, talked to them directly and observed any physical objects reported by the municipality. However, for the 2011 evaluation the local team did not perform a thorough evaluation. During the field visit, team members met key appointment holders in the government department for two hours but rejected an offer to meet with key appointment holders from working units.

On one occasion, district 2 in province C was evaluated by evaluators from the government bureau; another year evaluators were from the development and financial supervisory body. The key informant in district 2 (INF2/C/d2) said that evaluation by the government bureau was much more flexible. In fact, government bureau evaluators from the governor's office tended

to come from the same background as local government staff⁷⁷. The experience described by this key informant can be linked to the work of Abu Hasan et al (2013) which suggest that evaluators (auditors) need to have some empathy with subject being evaluated or auditee. A key informant from the municipality observed in province A (INF3/A/x) stated that no standard was applied when regional and national evaluation team made their field visits. INF3/A/x reported that the regional team very rigid and strict, the national team was described as more flexible. In one year, the evaluation team provided a list of things they wanted to clarify but the following year there was no list given.

As mentioned earlier, the regional evaluation team consists of three different elements. I also have described the different approaches undertaken by the different regional teams in conducting the evaluation. The problem was that the three elements involved in the regional evaluation teams own different levels of skills in relation to evaluation. The first element, the government bureau, has a similar characteristic to a government department at local government level (the similarity was mentioned earlier). The regional inspectorate is the institution which deals with monitoring and internal audit of the provincial government. Not all of its staff were accountants; nevertheless, their work relates to assessment and evaluation. Finally, the last element, the finance and development supervisory body, is the internal auditor of the government, and all the staff are accountants.

The organisational structure and task distribution in the regional evaluation team of province C has two implications. Firstly, there is no party to facilitate communication among different elements of evaluators. This caused the evaluation to be not well-coordinated. Each group of

⁷⁷ Indonesia has an institute devoted to the education of sub-district heads candidates, *Institut Pemerintahan Dalam Negeri* (IPDN). Officials to be placed in the government department in charge of the EKPPD at local government and regional government level) are usually IPDN graduates. Key appointment holders in charge of the EKPPD at the local government level and the key appointment holders in charge of the EKPPD at the regional government level therefore tend to come from the same network (i.e. the IPDN alumni).

evaluators has to deal directly with the districts/municipalities under its responsibility, for example, contacting the mayor/district head to obtain additional evidence or to complete data. Secondly, the result of the evaluation could contain a higher bias than that obtained by the approach used by the regional evaluation team of province B, as the evaluation skills of the three elements of evaluators were not at the same level. The approach used by regional evaluation team in province B seems to be better as any evaluation bias or unfairness was reduced by making sure that a district/municipality was assessed by two different elements (both elements are familiar with evaluation tasks). This approach undertaken by the regional team in province B explained the better implementation of the EKPPD in this province than in province C. The different approaches would affect comparability of the evaluation quality among the different provinces. Figure 7.11 summarise factors that influence the reliability of regional evaluation results.

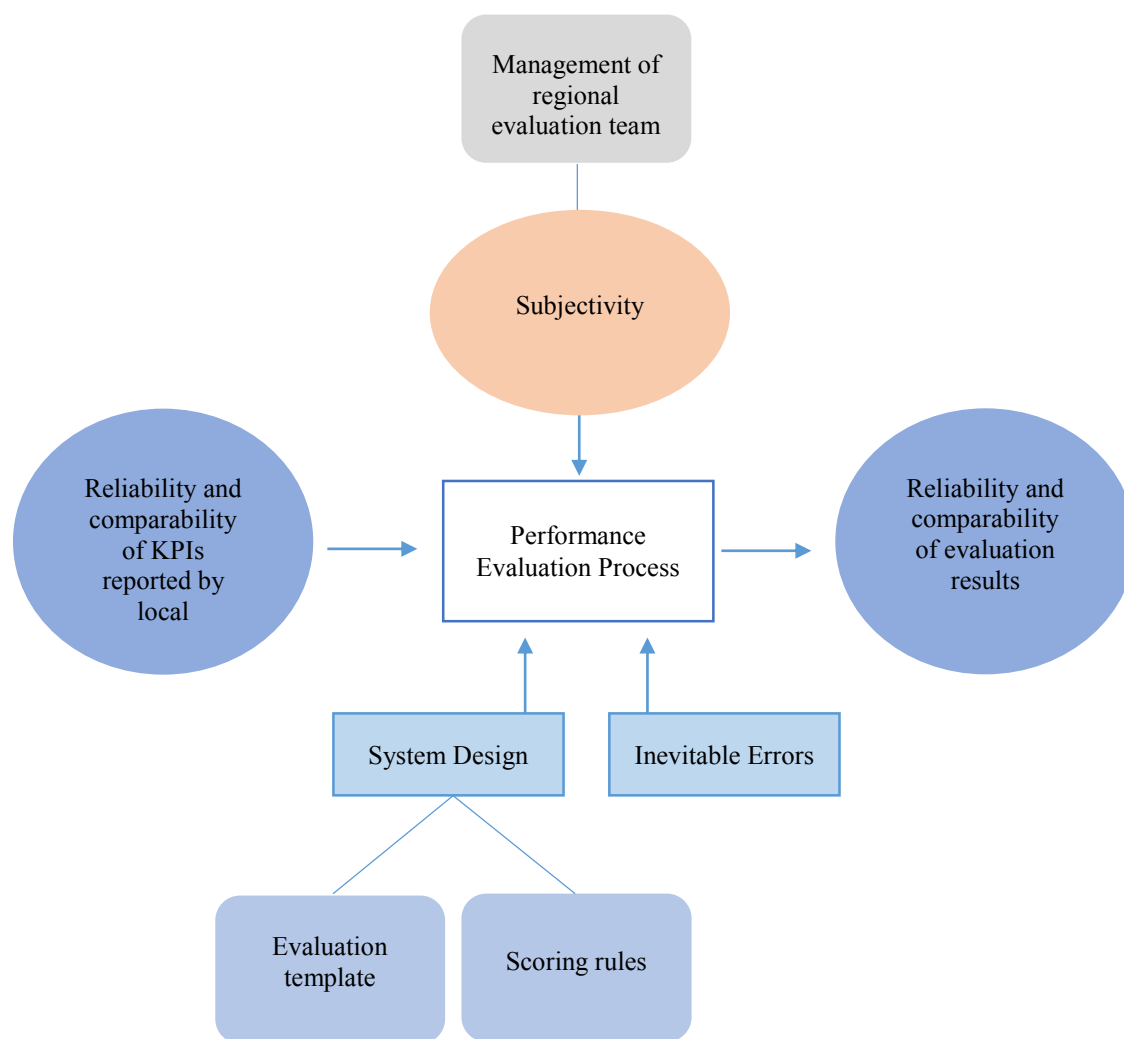


Figure 7.11 Factors Influencing the Reliability of Regional Evaluation Results

Source: Developed by author, based on findings

7.4.2 National Evaluation

Article 6 of Government Regulation No. 6/2008 mandates six ministries and four government bodies to be involved in implementing the EPPD; the national evaluation is chaired by the Minister of Home Affairs. The organisational structure of the team is presented in Figure 7.12, below. Among the ten ministries and government bodies involved, INF5/NG reported that the Financial and Development Supervisory Body was actively involved to help MoHA conducting the evaluation.

According to INF5/NG, implementation of the EKPPD performance evaluation was supported only through the routine budget of the MoHA's evaluation directorate, not by any special budget allocation (the Ministry of Finance (MoF) rejected the proposal for this). Evaluators from the financial and development supervisory body were supported by internal funds. INF5/NG stated that this limited budget meant the government could only facilitate training for those provinces/districts/municipalities with the capacity to finance such training. Availability of qualified evaluators was said to be limited because evaluator training was also considerably limited. INF5/NG commented that most evaluators tended to perform more of an 'operator' job rather than a real evaluation. Furthermore, there was lack of agreement among evaluators in terms of how to solve any problems encountered during the evaluation. According to INF5/NG, some evaluators preferred to ignore any miscalculation and continue to input data into the evaluation template. Moreover, with a limited budget, field visits only could take place to some selective districts/municipalities. These were ones nominated to be one of the best 10 performers, and were limited to a couple of days with only two or three evaluators involved.

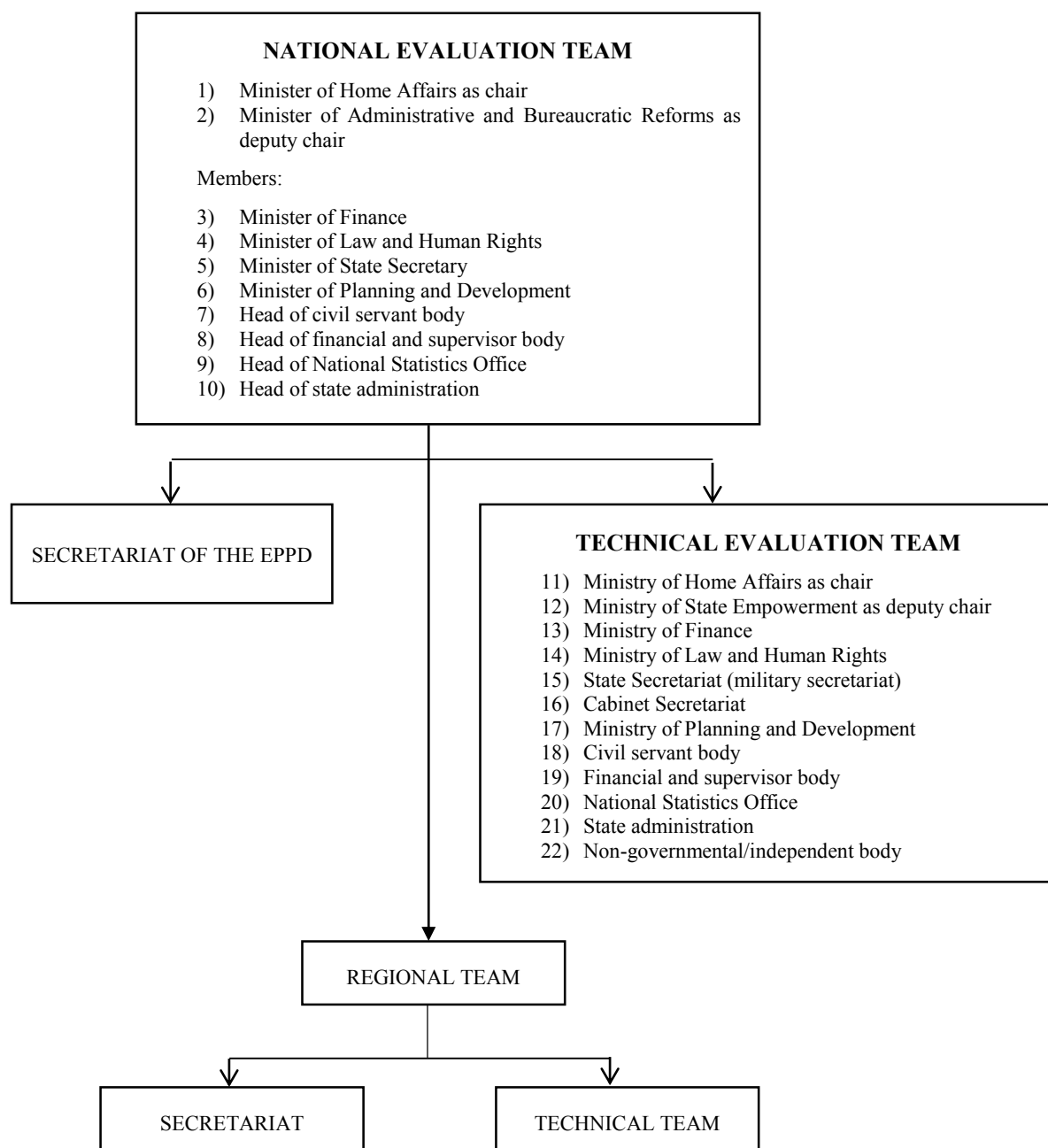


Figure 7.12 Organisational structure of the EPPD team

Source: Ministry of Home Affairs Circulation Letter of No. 120.04/2289/OTDA, 27 August 2009

As already mentioned, the evaluation process was carried out manually by the Financial and Development Supervisory Body using a Microsoft Excel evaluation template. INF5/NG explained that this template often crashed, an indication of the inadequate capacity of Microsoft

Excel to support the task. In other words, EKPPD data evaluation requires a more specific software package than Microsoft Excel. The inability to support the EKPPD with a suitable ITC system relates to the unavailability of budget. Furthermore, as INF3/NG added, the limited number of evaluators meant an evaluator could only analyse data for up to a maximum five functions out of more than 30 reported on, which, according to INF3/NG, increased the evaluation risks. At the same time, data to be evaluated contained many problems, as described earlier. The national evaluators experienced a similar situation with the regional evaluator in terms of difficulty in getting a response from local government for data clarification or request for additional information.

As displayed in Figure 7.12, ten ministries and government bodies are supposed to be involved in EKPPD implementation. In fact, only two elements (MoHA and the financial and development supervisory body) were actively involved. As mentioned earlier, MoF rejected the allocation of funds for local government evaluation. Similar to the explanation of why sector ministries did not support the design phase of the EKPPD discussed in the previous chapter, one possible explanation for this could be a conflict of interest between MoF and MoHA. The two ministries have been always in a state of competition to gain control and influence over local government. Based on Law 32/2004, coordinating districts/municipalities and provinces in Indonesia is the responsibility of MoHA, which implies its greater power. The new performance measurement initiative (EPPD) was introduced by MoHA. Other ministries therefore considered the EPPD (or EKPPD) to be a product of MoHA. Supporting the EPPD (or EKPPD) means acknowledging the greater power held by MoHA over local government than other ministries.

In reality, sector ministries still wanted to maintain their control over local government as practiced during the centralised era. Alm et al. (2001) has questioned the readiness of sector

ministries to give up their control over local government when Indonesia embarked on the ‘big bang’ decentralisation in 2001. As discussed in chapter 6, the EKPPD covers all government functions which have been delegated to local government. If the EKPPD is successful, it will turn MoHA into a very powerful ministry, as all information about the functions implemented by local government is included in it. If successful, the EKPPD will have the ability to undermine the influence of sector ministries over local government.

It is also interesting to further analyse why the financial and development supervisory body has been actively involved since the beginning and shows a strong and consistent commitment to support EKPPD implementation. This body has been in decline since decentralisation. It held very important position during the centralised era because the regime did not want the supreme audit office to function properly. At the same time, after decentralisation, the government put more emphasis on the role of external audit in local government. The local government performance evaluation may be seen by the financial and development supervisory body as an opportunity to show they still have a role. Moreover, this body has an internal budget which can be used for supervision and monitoring purposes. If there is no supervision or monitoring activity taking place, the budget cannot be used. Thus, by participating in the EKPPD implementation, the financial and development supervisory body can spend its supervision and monitoring budget.

This finding shows how multiple stakeholders with different interests and objectives influence capacity to implement the EKPPD. Lack of stakeholder commitment and support has brought about two direct consequences: limited availability of evaluators in term of quantity and quality and lack of financial source to support the process. What happened during the evaluation process at the national level is summarised in Figure 7.13 below:

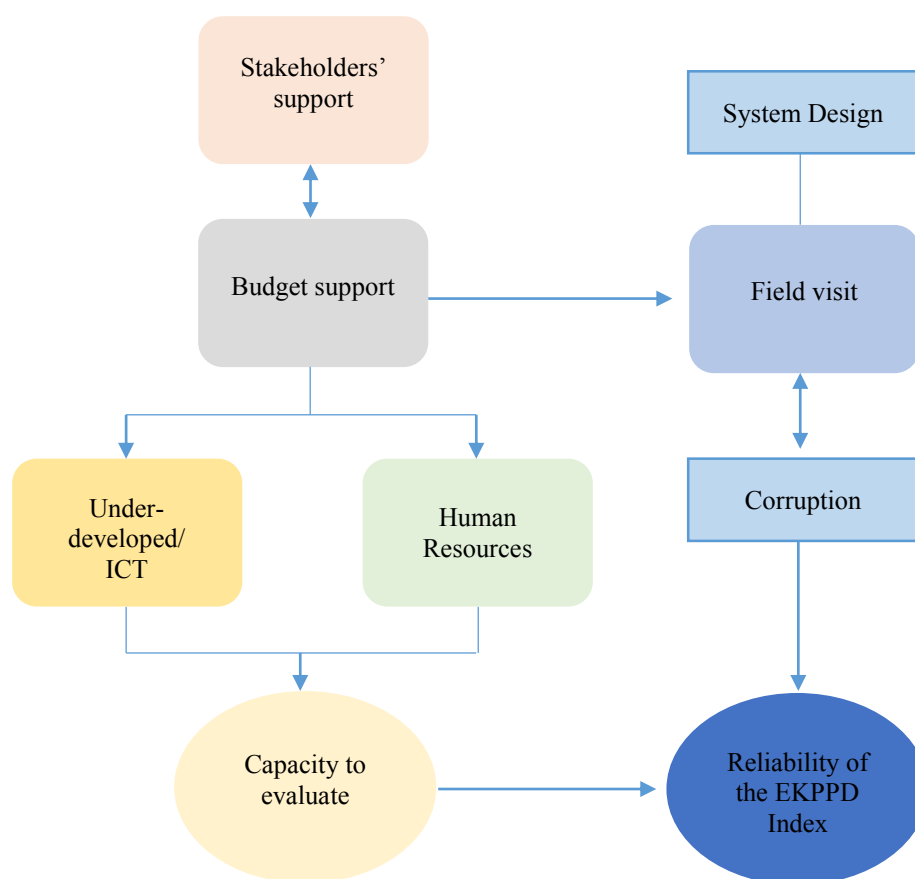


Figure 7.13 Factors influencing reliability of the national evaluation results
 Source: Developed by Author, based on findings

As mentioned earlier, MoHA tended to be late in advising of any changes related to the EKPPD. This was also another indication of a lack of readiness on the part of the national government to implement the system. For local government, given the very limited time frame, any change in format would cause serious consequences, because the adjustment to the new formats when data has been collected or the performance report has been written, uses resources and time. This can discourage local government from starting the process of data collection and drafting the report as early as possible.

7.5 Reporting and Evaluating Performance under the EKPPD System

System design

From the description and discussion of the implementation process undertaken at different levels (local, regional and national government), several issues can be seen to relate to one problem: **system design**. The issues included timeliness, poorly-designed indicators, scoring rules, and an unstable evaluation template. Timeliness as a critical issue is reflected in:

- mismatched availability of external data with timeliness of performance report submission;
- mismatched availability of some internal data with timeliness of performance report submission;
- same deadlines for local and regional government to submit performance report, whereas KPIs for regional government depend on data from local government.

If local government needs to include external data in its performance report for EKPPD purposes, it should be ensured that deadlines match with the availability of the external data. Similarly, the timeline to submit the report needs to consider the availability of internal data. Several indicators would be affected by the availability of external data and 14 indicators would be affected by the availability of financial data (see Table 7.11):

No	Key performance indicator	Note
1.	Basic public services expenditure	KPI 17 (policymaker): harmony of local policy and national policy
2.	Expenditure on education and health	KPI 18 (policymaker): harmony of local policy and national policy
3.	Absorption of block grant	KPI 31 (policymaker): transparency in using transfer
4.	Expenditure allocation financed through block grant	KPI 32 (policymaker): transparency in using transfer
5.	Expenditure allocation from total local budget	KPI 33 (policymaker): transparency in using transfer
6.	Proportion of original local income to total local revenues (realisation)	KPI 34 (policymaker): intensity, effectiveness and transparency in collecting original local income

7.	Proportion of residual income to total revenue	KPI 36 (policymaker): effectiveness of planning, execution and accountability of local budget.
8.	Proportion of expenditure realisation to budgeted expenditure	KPI 37 (policymaker): effectiveness of planning, execution and accountability of local budget.
9.	Proportion of original local income (realisation) to the potency	KPI 39 (policymaker): local potency management
10.	Increase/decrease in original local income	KPI 40 (policymaker): local potency management
11.	Expenditure allocation to total local budget	KPI 13 (policy implementer): financial management
12.	Capital expenditure to total budget local agency/technical organisation	KPI 14 (policy implementer): financial management
13.	Maintenance expenditure to total goods and services expenditure	KPI 15 (policy implementer): financial management
14.	Proportion of maintenance expenditure to total expenditure of the technical organisation	KPI 16 (policy implementer): financial management

Table 7.11 Indicators Affected by Availability of Financial Data

Source: Developed by author, based on analysis

Regulatory framework

The problematic of timeliness in terms of there being no time differential between local and provincial government deadlines governing the submission of the EKPPD performance report relates to the failure to harmonise two different regulations. As mentioned earlier, the regulation on the new performance measurement initiative was issued in February 2008 and the first evaluation took place in October 2008 (to evaluate local government performance of fiscal year ended 31st December 2007). The EKPPD KPIs in this first evaluation were treated as supplementary to the LPPD report. As mentioned earlier, the LPPD report itself is regulated through Government Regulation No. 3/2007 which came into being a year before the regulation on the new performance measurement initiative was signed⁷⁸. In other words, Government Regulation No. 3/2007 governs how local government should report to national government, whereas Regulation No. 6/2008 indicates how local government should be evaluated.

According to INF6/NG who chaired the drafting of the regulation on reporting, the two regulations were drafted by two separate directorates at the MoHA (the regulation on reporting

⁷⁸ Government Regulation No. 3/2007 on LPPD was signed on 4 January 2007; Government Regulation on EPPD was signed on 4 February 2008.

was drafted by the directorate of reporting; the regulation on evaluation was drafted by the directorate of evaluation). Both regulations were expected to be harmonised before they were implemented. However, the drafting of the local government evaluation regulation took much longer to finish and, as a result, harmonisation did not take place whereas the regulation on reporting states that both the local and regional governments are obliged to submit the LPPD report by 31st March annually. INF6/NG underlined that the LPPD report has its own structure and was designed for a model of evaluation, which is different from the concept of the EKPPD.

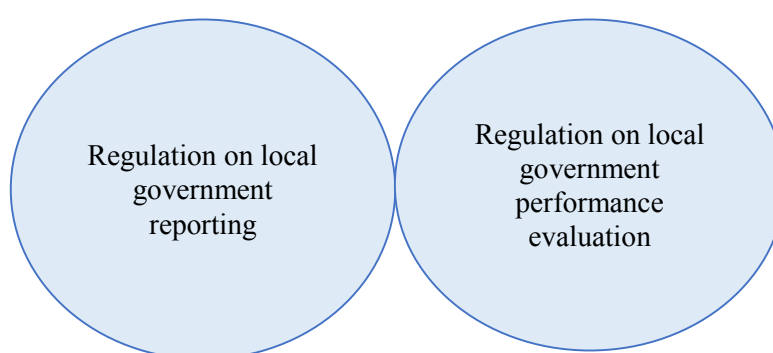


Figure 7.14 Unfinished Harmonisation of Regulation on Reporting and Evaluation
Source: developed by author based on finding

When the design of the EKPPD indicators was completed in 2008 there was confusion in terms of whether local government would be required to present the KPIs for the EKPPD in the form of an independent report. The government considered it inappropriate to impose another reporting requirement on local government when it had introduced a similar requirement the year before. To address the confusion, MoHA as secretariat of the EKPPD issued the first technical guideline, stating that the EKPPD KPIs should be presented as a supplement to the LPPD report (MoHA Circulation Letter No. 120/1875/OTDA, 5 September 2008). The

guideline required local government to submit the supplement⁷⁹ by October 2008. For the next evaluation, however, the KPIs for the EKPPD should be attached to the report as an annex.

As the earlier explanation indicates, it is clear that 31st March is the timeline established by the regulation on reporting; the regulation on evaluation itself does not mention this deadline. The mismatched timeliness thus indicates the failure to harmonise the two regulations. This argument is supported by a statement from INF6/NG:

The reporting mechanism according to government regulation no.3/2007 does not require the provincial report to be dependent on the local government report. That was why the deadline for both to submit the report to the MoHA was made the same.

In contrast, under the EKPPD system, KPIs provinces depend on the KPIs of districts/municipalities under its jurisdiction. The EKPPD should follow timeliness set in the reporting regulation, as the EKPPD KPIs are presented as an annex to the LPPD report.

The second explanation relates to lack of clarity during the design phase in terms of how performance data should be collected. According to INF2/NG, data from sector ministries could be used for this, meaning that MoHA would not need to collect additional performance data:

There is no one who knows better about education than the ministry of education: ask them! There is no one knows better about health than the ministry of health: ask them! The duty of MoHA should be to coordinate other sector ministries (statement of INF2/NG).

Alternatively, as INF2/NG added, MoHA could conduct a customer satisfaction survey, asking local people directly what they think about the performance of their local government.

⁷⁹ It was referred to as a 'supplement' as the LPPD report itself had been submitted by local government by 31st March 2008 (apart from in 49 districts and 9 municipalities).

However, as mentioned in the previous chapter, INF2/NG adopted another position before the draft regulation on the new performance measurement initiative was finalised.

Lack of understanding of local government practices

There is evidence that the EKPPD was designed without a full understanding of practices applied at local government level. Firstly, the latest technical guideline (which specifically stated and provided an example of a matrix on how to report KPIs according to functions) was issued only after two evaluations had taken place. It was issued because of the struggle faced by the national evaluators in trying to understand why complete data for KPI 17 of the policy-maker had never been obtained. ‘KPI 17’ means the 17th Key Performance Indicator used as one of measures to assess local government performance at the level of policy-makers under the EKPPD system. This KPI has been presented in Table 7.5 and discussed earlier. Moreover, a cross-check of budget document figures indicated they had never been consistent with each other. After that, the national evaluation team realised that districts/municipalities might have merged different functions together. It can thus be argued that the EKPPD was designed with the assumption that a one-to-one relationship existed between functions delegated to local government and the organisational structure of local government, which was not the case in practice. Furthermore, the shock response demonstrated by the national evaluator with whom the key appointment holders of the municipality 1 in province C had consulted⁸⁰ provided further evidence of the lack understanding of who was involved in EKPPD design with real practices existing at local government (the real practices did not always follow what written in the regulations).

⁸⁰ The consultation concerned how to deal with a working unit running multiple (more than two) functions, as the technical guideline only provided an example of a matrix for a working unit in charge for two functions only.

ICT support

Capacity in terms of ICT at local, regional and national government levels was inadequate to support EKPPD implementation. Reliance on a manual system made it hard to expect proper implementation, given the massive amount of data to be processed (as mentioned earlier, the EKPPD involves 800 pieces of data for each individual district/municipality, and up to 2012 there were 373 districts and 91 municipalities eligible for EKPPD (Minister of Home Affairs Decision No. 120-251, 24th March 2014). Chapter 2 mentions that the proliferation of performance measurement in the context of developed economies was possible because of advancements in ICT (computer technology). In the case of the EKPPD however the Government of Indonesia was tempted to adopt a performance measurement system without careful consideration of the feasibility of implementing it in terms of ICT support.

Budget support

The finding of this study shows how insufficient budget support significantly affected implementation of the EKPPD. During the first year of implementation the government was supported by a loan from the ADB. When this came to an end the government relied on the routine evaluation budget of the evaluation directorate at the MoHA. However, this was limited, and as a result the national evaluation team was unable to provide sufficient training for evaluators and key appointment holders at local government. The insufficiency of this budget was another reason the evaluation relied on a manual system. At the local government level, those districts/municipalities which received adequate budget support showed better implementation than others with insufficient support. Budget support for EKPPD varies across districts/municipalities and depends on support from elected leaders and the financial capacity of the respective districts/municipalities.

Stakeholder involvement

Stakeholder involvement is more problematic at the national level than at regional and local government levels. At the national level, the low support and involvement of stakeholders significantly affected the capacity of the national evaluation team to carry out a proper evaluation. At the local government level, the finding of the study shows stakeholder involvement varied across the nine districts/municipalities observed. Nevertheless, districts/municipalities still managed to report KPIs. Even with no support from the elected leaders and other local government' elements, the key appointment holder in the regional autonomy division continued to report KPIs, as evidence in municipality in province B shows.

Human resources

The low human resource capacity at the local level affected EKPPD implementation in two ways. Firstly, staff encountered difficulties in understanding KPIs in terms of the data each indicator required. Secondly, local government stakeholders had an insufficient understanding of the system design of the EKPPD. For example, they misunderstood the need to report KPIs according to the organisational structure of local government rather than the functions run by local government. This finding supports Taraschewski and Wegener (2011) which states that local government officials do not have a common understanding of the EKPPD system.

**Box 7.2 Inevitable Human Errors in Measuring Performance:
Evidence from Municipality 1 (Province C)**

For the 2011 evaluation, municipality 1 received an unfair evaluation result because of human error on the part of the regional evaluation team. The team's report stated that municipality 3 did not supply data for 40 KPIs, which were thus automatically scored as zero. The effect of this was that municipality 1 got a very low score compared to its previous evaluation where it had ranked sixth among the best 10 performers in Indonesia. In the 2011 evaluation, the municipality jumped dramatically to 70th position in the national ranking and 11th among the 19 districts/municipalities in province C. This was startling news for the mayor, who believed performance to be better than the previous year. The local team also considered their report for the 2011 evaluation to be the best they had written.

The mayor instructed the local team to send a letter of complaint to the C regional evaluation team and to ask for clarification. The report's statement that 40 KPIs were not fulfilled did not make sense as municipality 3 had completed all the 158 KPIs. The 40 KPIs logged as 'blank' included KPIs for the tourist function, one of the municipality's priority. As INF5/C/m1 commented, 'This is not possible. Tourism is a priority function for us; data about tourism is therefore the first that concerns us.' The regional evaluation team at province C eventually acknowledged that they had missed inputting the data for those 40 KPIs into the evaluation template.

Source: Interviews with a) key members of team in municipality 1-province C, and b) letter sent in response to the evaluation result to the local team, 11th January 2012.

Evidence of errors have been found originating from local government during the reporting process (for example, those which emerged in district 3 of province C, see Table 7.10) and during the evaluation process by the regional team (such as 40 KPIs which were not inputted by the into the evaluation template). Box 7.2 above presents the experience of municipality 1 of province C in relation to human error happened during evaluation process based on the EKPPD System. This finding supports the literature which suggests that any attempt to quantify is not free from errors (such as Talbot (2010) and Hood (2007), discussed in Chapter 2).

Appreciation for EKPPD system

In general, districts/municipalities did not appreciate the EKPPD system. Here, stakeholders instead placed higher value on the financial reports and the accountability report presented to the local parliament. This finding is supported by the finding obtained from the survey taken among 31 districts/municipalities, in which 58.06 per cent of respondents stated that financial reports were the most important priority for stakeholders in their districts/municipalities, and only 9.68 per cent indicated that the EKPPD performance report was the first priority (see Table 7.12).

Priority	Type of Report			
	Financial Report	Accountability Report	LAKIP Report	LPPD Report
1 st	58.06%	16.13%	6.45%	9.68%
2 nd	16.13%	41.94%	9.68%	19.35%
3 rd	16.13%	25.81%	22.58%	25.81%
4 th	0.00%	6.45%	48.39%	35.48%

Table 7.12 Degree of Importance of Different Reports for Stakeholders at Local Government

Source: Developed by author, analysed from survey data

The different priority given by stakeholders at local government in relation to four main reports that local government should produce, is clearly demonstrated in Figures 7.15. The majority of respondents placed the LPPD report which is the basis performance evaluation using the EKPPD system as the 4th priority.

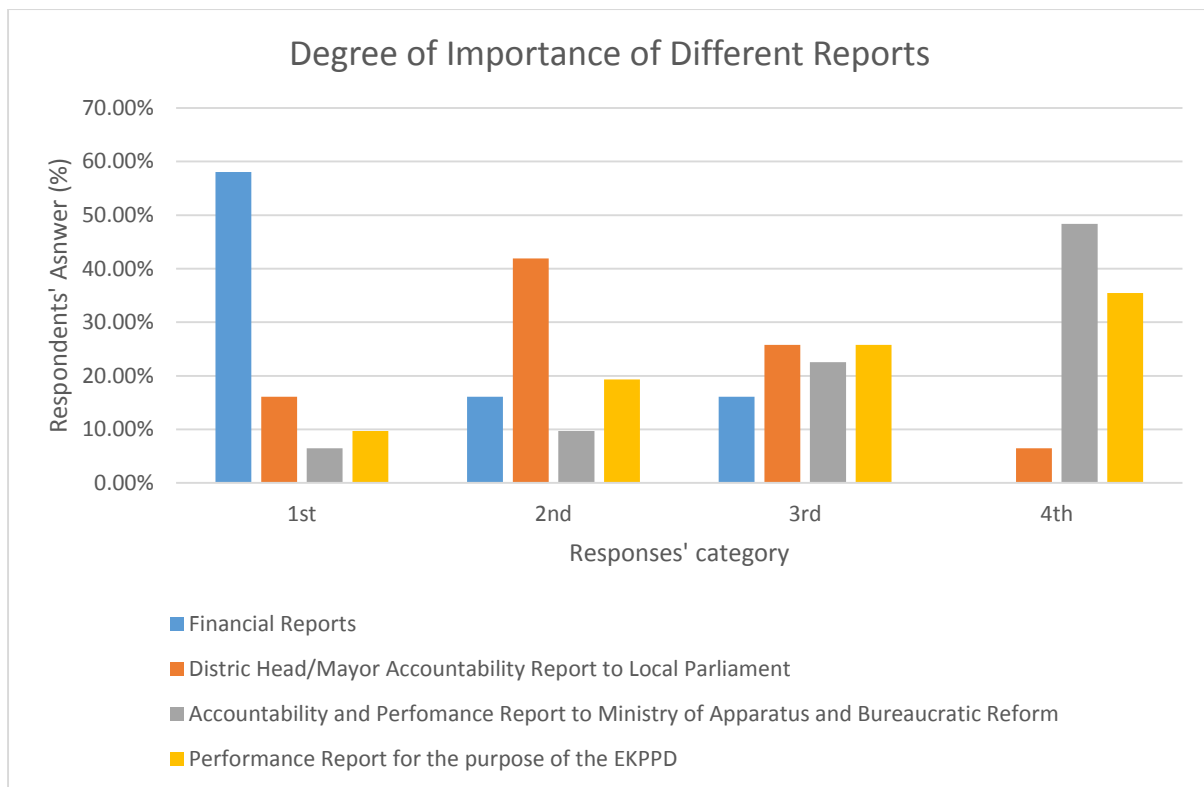


Figure 7.15 Degree of Importance of Different Reports
Source: Developed by author, analysed from survey data

Responses on the next question: the extent respondents agree or disagree if 'performance evaluation under the EKPPD system has no financial consequences. This was a reason why the KPIs and evaluation results also have no influence on strategic decision making processes at the local government.' Majority of respondents (79%) also agreed with this statement. This point links to the discussion about disconnection between the EKPPD and resource allocation that will be discussed in point 8.3.4

7.6 Conclusions

The first conclusion obtained from the discussion in this chapter is that inadequate capacity exists to implement the EKPPD system at local, regional and national government levels. The direct effect of this is the low reliability and comparability of KPIs reported by local

government. Furthermore, evaluation conducted on this basis resulted in unreliable performance and an incomparable performance index produced from the performance evaluation process. Status and ranking of districts/municipalities were determined based on the performance index produced from the EKPPD system; they were therefore unlikely to reflect the actual performance of Indonesian local government.

Capacity to report KPIs at local government level was influenced by three major factors: availability of data/ICT, system design, and support of stakeholders. Weakness in system design led to the heavy involvement of subjective judgments in deciding which data to use to fulfil the KPIs. System design also caused difficulty in terms of the timelines needed to obtain data. Underdeveloped ICT systems and infrastructures led to much necessary data being unavailable. Availability of data was also affected by the work systems and culture practiced at the local government level (e.g. informality and high frequency of staff rotation). Support from elected leaders was crucial as it influenced availability of resources needed to implement EKPPD, such as personnel and budget. Districts/municipalities with higher organisational capacity showed better implementation than others with lower organisational capacity. In terms of technical capacity, all districts/municipality faced similar problems.

Capacity to report at the regional government level was primarily affected by system design, and more specifically by timeliness. Meanwhile, the capacity of the regional team to carry out the evaluation was affected by three main factors: (i) reliability of the KPIs reported by local government, (ii) subjectivity, and (iii) system design. In term of national evaluation, this capacity, however, also faced a very serious problem due to a lack of stakeholder support, resulting in an inadequate allocation of resources needed to carry out a proper evaluation according to the system design. In addition, as part of the inherent weakness of quantification,

inevitable errors were found at different stages of implementation (data collection at local government, evaluation at regional level, and evaluation at the national level).

Implementation at local, regional and national government level thus went through a stage of confusion. Local government stakeholders remained unclear about how their performance was being measured according to the EKPPD system, stakeholders at regional government continued to be frustrated with the irrational timeliness for performance report submission, and the national evaluation team (MoHA in particular) struggled with inadequate resources. The second conclusion is that the system design of a performance measurement system can be a great obstacle at implementation stage, especially when those involved in the design process do not have a full understanding about the circumstances or context in which the system will be applied. Thirdly, implementation of performance measurement in the context of developing economies requires improvement in some basic areas, such as consistency regarding regulations and cultural change to align with performance culture.

CHAPTER 8

USE AND DYSFUNCTIONAL EFFECTS OF THE EKPPD

8.1 Introduction

The findings related to the first two phases of the EKPPD, design and implementation, have been described and discussed in chapters 6 and 7. The next phase after implementation is use, as defined in chapter 2. As the system design affected implementation, as shown in the discussion in chapter 7, it might also influence the use of the EKPPD. As described in chapter 6, the system design of the EKPPD includes some key features: 1) a focus on assessing the governance aspect and the services provided by the Indonesian local government, 2) introduction through a top-down approach adopting a set of standardised KPIs, 3) performance evaluation primarily uses desk-based evaluation but can include common sense and field visits to cross-check the performance data. Moreover, in chapter 7, I described and discussed the implementation problems encountered by the government at all levels: local, regional and national. Problems in implementation may prevent use.

This chapter therefore aims to present the findings of this study related to the evidence of use or non-use of the EKPPD system. The findings show no evidence of the EKPPD results being used to inform the policy-making process at the local and national government levels. Thus, the real intended use of the EKPPD as a technical instrument to support recentralisation has not been achieved yet. Reorganisation of local government in Indonesia has not occurred and the attempt to re-impose control over local government appears to not really work. The strong influence of the elected leaders in the process of local policy-making suggests that a different approach or mechanism might be needed to ensure local policies align with national policies. Determining the status and ranking of districts/municipalities with no follow up seem to be

disproportionate to the efforts spent by local government to report KPIs and by the regional and national evaluation teams to evaluate them. At the same time, a degree of dysfunctional behaviour emerged.

This chapter begins by describing how the results of the EKPPD system should be used by both national and local government. It shows a connection between the EKPPD and the second measurement system (the EKPOD). The next section focuses on the difficulties in using KPIs and performance index of the EKPPD system, covering the regulatory framework, the challenges of the performance index, the strong influence of the elected leaders, the disconnection of the EKPPD into resources allocation and system design. The discussion then moves on to the dysfunctional effects of the EKPPD system and finally the conclusion.

8.2 The Intended Uses of the EKPPD System

As discussed in chapter 6, one of driving forces of the new performance measurement initiative was recentralisation through a) merging/abolishing regions incapable of achieving the objectives of decentralisation policy and b) re-exerting control over local government to ensure local policies are aligned with the national policies. Due to technical and political considerations, measurement was split into two separate systems: the EKPPD and EKPOD. The regulation on the new performance measurement initiative states that those local governments whose performance has (according to the annual evaluation) been low for three consecutive years will be subjected to the next assessment type, that is, the EKPOD (Government Regulation No. 6/2008, article 42 (a)). The worst-case scenario is that poorly performing local governments face the risk of being either merged with other regions or abolished. Before implementing the EKPOD, however, national government is required to provide capacity building programmes for the low performers. Districts/municipalities able to

improve their performance can avoid the EKPOD; otherwise, national government will assess their capacity to implement decentralisation using the EKPOD. The EKPOD is expected to produce recommendations on how poorly performing regions can improve, and they will then be given a chance to do so. If they fail to improve their performance, they will be merged with other regions or abolished.

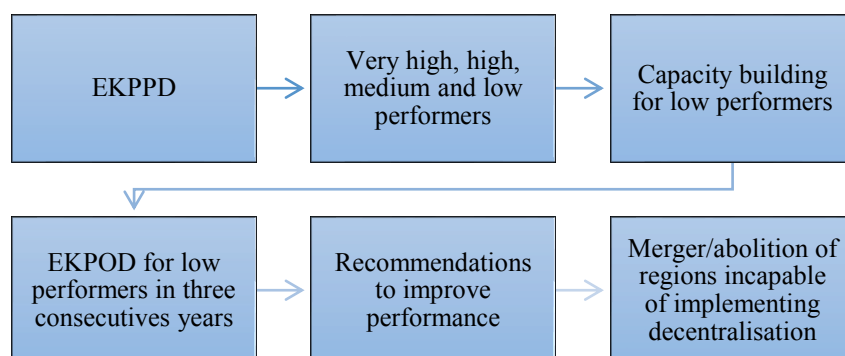


Figure 8.1 The Relationship between EKPPD and EKPOD

Source: Developed by author, on the basis of the EKPPD manual and interviews with INF3/NL

Figure 8.1 illustrates the relationship between the EKPPD and the EKPOD. As indicated, a long and complex process is used to merge and abolish regions which are shown to be incapable of implementing decentralisation policy. Two types of measurement should be carried out first.

According to INF3/NG, the idea during the design phase of the EKPPD was that any low performing regions would be required to develop an action plan on how to improve their performance. The national evaluation team would assess the plan and determine which actions should be undertaken by the regions themselves and which ones that should be carried out by sector ministries in the form of capacity building programmes. MoHA, as the evaluation secretariat, should send recommendations to the sector ministries; thus, the sector ministries can design appropriate capacity building programmes for the respective regions. However, according to INF3/NG, at the time this interview took place, the government's focus was still on gathering data from local government. The information thus obtained, however, had not

been used for any capacity-building purpose or to contribute to the new design of decentralisation in Indonesia. INF3/NG was supported on this point by INF4/NG, INF5/NG and INF7/NG. Then, during the investigation at local government level, all key informants also acknowledged no impact of the EKPPD on the policies and programmes undertaken in their respective districts/municipalities.

8.3 Difficulties in Using KPIs and Performance Index of the EKPPD System

Tables 8.1 and 8.2 present the results of the performance evaluations from 2007⁸¹ to 2012 for the categories of district and municipality respectively.

No	Performance Category	Performance Index	Year of the Performance being Evaluated					
			2007	2008	2009	2010	2011	2012
1.	Very high	3.01 – 4.00	3%	0%	0%	6%	6%	12%
2.	High	2.01 – 3.00	38%	69%	79%	78%	81%	51%
3.	Medium	1.01 – 2.00	30%	27%	21%	15%	13%	31%
4.	Low	0.00 – 1.00	15%	4%	0%	2%	0%	6%
5.	Failed to submit performance report		14%	0%	0%	0%	0%	0%
Total			100%	100%	100%	100%	100%	100%

Table 8.1 Results of Performance Evaluations Using the EKPPD System: District
Source: processed from the results of evaluation undertaken for performance, 2007-2012

No	Performance Category	Performance Index	Year of the Performance being Evaluated					
			2007	2008	2009	2010	2011	2012
1.	Very high	3.01 – 4.00	2%	0%	0%	4%	13%	21%
2.	High	2.01 – 3.00	49%	95%	95%	80%	86%	56%
3.	Medium	1.01 – 2.00	27%	5%	5%	16%	1%	22%
4.	Low	0.00 – 1.00	12%	0%	0%	0%	0%	1%
5.	Failed to submit performance report		10%	0%	0%	0%	0%	0%
Total			100%	100%	100%	100%	100%	100%

Table 8.2 Results of the Performance Evaluation Using the EKPPD System: Municipality
Source: processed from the results of evaluation undertaken for performance, 2007-2012

⁸¹ Evaluation of 2007 performance took place in October 2008 and the results came out in 2009. There was thus a difference of two years between the year of performance being evaluated and the year the result was announced. Similarly, for the 2012 performance, evaluation started in 2013 and the result was announced on 25 April 2014.

Tables 8.1 and 8.2 indicate the increasing trend for districts and municipalities to fall into the ‘high’ performance category and decreasing trend for them to fall into the category of ‘low’ performance in the first five evaluations (2007–2011). This can be associated with the fact that the local governments knew better how to do the reporting. The evidence for this argument was the explanation from one of the key informants (INF3/NG), who stated that the concern of the first evaluation was mainly with the format and structure of reporting, not the quality of the KPIs reported in terms of their reliability and validity. Districts/municipalities were given a high score if they followed the reporting format and structure as required. At this first evaluation, among those that submitted the LPPD report, some did not follow the format and structure required by Government Regulation No. 3/2007.⁸² Meanwhile, the weight allocated for the format and structure was 20% of the total weight for the final EKPPD index (MoHA Circulation letter No. 120.04/2393/OTDA, 5 November 2008), which was quite high, to influence the score.

Using the wrong reporting format and structure was the reason why Yogyakarta was placed at the bottom of the league table in the first evaluation (INF/NG). Yogyakarta was given as an example was because it used to be well known for many best practices in terms of local governance in Indonesia. Once Yogyakarta followed the right format and structure the following year, it jumped to being one of the highest performers, as INF3/NG added. Yogyakarta was likely to not be the only region experiencing this issue. Improved performance scores as a result of local government’s greater familiarity with the intended reporting format is not unique to the experience of local government in Indonesia. of McLean et al. (2007) revealed this issue in the case of CPA implementation in English local government. In

⁸² 49 districts and 9 municipalities were not evaluated in the first evaluation as they did not submit a LPPD report. The ‘LPPD report’ is the name of the report that contains the matrix of KPIs of the EKPPD (as discussed in the previous chapter). I also mentioned in the previous chapter that Government Regulation No. 3/2007 is the regulation on how local government should report to the national government.

investigating auditee perceptions on the external evaluations of the use of resources by local authorities in England from 2002 to 2009, Abu Hasan et al. (2013) show that 90% of their respondents agreed that the improved score could be associated with the fact that local authorities knew where to improve through the indicator provided.

In the 2012 evaluation, however, both tables show that the results did not follow the trend in the first five evaluations. For the district category, for example, there was a 6% increase in districts in the 'very high' category, a 30% decrease in the 'high' category, an 18% increase in the 'medium' category and finally a 6% increase in the 'low' performance category (see Table 8.1). The case was similar for the municipalities: there was 8% increase in municipalities in the 'very high' category, a 30% decrease in the 'high' category, a 21% increase in the 'medium' category, and finally a 1% increase in the 'low' performance category (see Table 8.2).

These changes can be associated with the products of the scoring system. First, there was a difference in terms of the number of districts evaluated in the 2012 and 2011 evaluations. In 2011, 365 districts were evaluated whereas the number increased in the 2012 evaluation to become 373 districts. This means that 8 districts were evaluated for the first time in the 2012 evaluation. This change explained the changes in the proportion of districts in each performance category. According to Jacobs and Goddard (2007), who examine whether composite indicators are a good way of measuring performance in the public sector, rankings are sensitive to the way in which the performance indicators are aggregated. As described in the system design, the way in which the final EKPPD index for individual local government was produced will be influenced by the total number of local governments being evaluated. This relates the data normalisation process discussed in chapter 6.

Furthermore, Jacobs and Goddard (2007) state, "Small changes in methods used to aggregate underlying indicators to construct the composite indicator can have a substantial impact on the

results” (p. 106). It is very likely that some changes were made in the evaluation techniques such as improving the formulae used. The reason for this argument is linked to the discussion in the previous chapter about the weakness of the evaluation template (see discussion in chapter 7). The national evaluation team might have corrected the weakness of the evaluation techniques, as some local government openly protested about their ranking.

The changes occurring in the 2012 evaluation can also be connected to the local governments ‘gaming’ the system. This argument is supported by information received from one of the key informants in province B (INF1/B) in a follow-up phone call in May 2012. She said that the regional evaluation team in her province were not able to start the evaluation process, as most of the local governments had delayed submission of the KPI matrix. Most of the districts and municipalities only submitted the LPPD report without attaching the KPI matrix as the basis for evaluation under the EKPPD. According to her explanation, the reason why districts and municipalities did that was because they wanted to ensure the accuracy of the finance figures (to make sure that the figures reported in the KPI matrix were the same as the figures reported to the Supreme Audit Office).

The districts and municipalities wanted to ensure the accuracy of the finance figures because this was one of the indicators under the EKPPD system. Ensuring the figures would be consistent was achieved by waiting until the audit by the Audit Supreme Office had been completed. Therefore, some districts/municipalities in province B intended to delay supplying KPIs until June 2012 (by which time it was expected that districts/municipalities would have obtained audited financial figures), as INF1/B explained. The reason why they still submitted their LPPD report by 31st March without the KPI matrix was because the timeliness of report submission was assessed under the EKPPD system (one of the performance indicators to be evaluated). By doing this, the local government can secure a score for two KPIs: ‘accuracy of

finance figures in the KPIs and the ones reported to the Supreme Audit Office’ and ‘timeliness of report submission.’

It was true that by ‘gaming’ the system in this way, the local governments actually secured only two KPIs. However, this could make a big difference in their final index because the overall score is very sensitive even to a change in one KPI. This argument is supported by the explanation received from another informant in province B during the field visit. According to this informant, who had tested what the effect would be if the score for some KPIs changed in the final performance index obtained by the local government and their ranking, the change could be very significant, even if only one score for one KPI was changed: “The score is very sensitive. If we change the score, even just for one KPI, it can make the ranking of a district or municipality jump significantly” (INF3/B). Another piece of evidence to support the explanation about the sensitivity of the EKPPD index the when score of an individual KPI changes, is reflected in the information provided in Box 7.2 The rank of municipality 3, province C decreased dramatically from 10th to 70th in the 2011 evaluation because of a human error on the part of the regional evaluator who was in charge of inputting data for municipality 3 into the evaluation template for 40 KPIs.

Thus, from the explanation above, the evaluation results presented in Table 8.1 and 8.2 can be associated with both factors: the local governments knowing better how to report and a product of the scoring system. These findings therefore, support the existing literature that has pointed out this issue when aggregating indexes are used (using composite measures). Another message that both tables convey is that the results of the first six years of evaluations presented in both tables indicate that no district/municipality met the EKPOD criteria; the data presented in Tables 8.1 and 8.2 thus explain why no EKPOD has yet taken place. The difficulties in using the results from the EKPPD evaluation will be discussed further below.

8.3.1 Regulatory Framework

In the interview with INF3/NG, he mentioned the regulatory framework as one of the reasons for which the results of the EKPPD have not been used. More specifically, the Presidential Regulation as the necessary implementing regulation for capacity building programmes has not been finished yet. He pointed out the long delay in the parliament's approval of the regulation. He explained further that without an implementing regulation, the sector ministries could not design any capacity building programmes as designing capacity programmes related to the source of the budget to finance the programmes. More clearly, the sector ministries would not have a legal basis to make budgetary allocations to support capacity building programmes. Thus, this finding shows how the regulatory framework affected the use and usefulness of the performance information produced by the performance measurement system. For this reason, as INF3/NG acknowledged, designing a measurement system should ensure all related regulations is completed at the same time as the issuance of the regulation on performance measurement itself.

Chapter 7 also discussed the implementation of the EKPPD, which has been problematic due to the unfinished harmonisation of two different regulations (the regulation on local government reporting and the regulation on local government revaluation). Moreover, the need for the new system of measurement was also related to the weak regulatory framework. As discussed in chapter 6, the new performance measurement initiative relates to one central problem: the negative implications of decentralisation policy. Then if we trace back, the negative implications of decentralisation policy were connected to the serious weakness of Law 22/1999 as the legal basis of the decentralisation policy implemented in 2001. In addition, as Rashyid (2004) highlights, sector ministries were also responsible for the necessary 109 implementing regulations that never been issued (see discussion in chapter 5). This highlights a weak regulatory framework as one of characteristics of governance in Indonesia.

8.3.2 Challenges of the EKPPD Index

Reliability of Performance Index

In the previous chapter, I discussed the struggle of a) local government to report KPIs accurately, and b) the regional and national evaluation teams to carry out a proper evaluation. The discussion in Chapter 7 concluded that the KPIs reported by districts/municipalities were likely to be unreliable, as many factors distorted the data used to complete the KPIs. Similarly, the processes of evaluation at the regional and national levels were also affected by many factors. Thus, the EKPPD indexes presented in Tables 8.1 and 8.2 were produced from KPIs of questionable reliability, and the evaluation emerged from a process which was improper. Therefore, INF3/NG reported that the Minister of Home Affairs openly stated that he had lacked confidence in the evaluation result and requested a second opinion from the third party.

The reliability of the EKPPD index in fact was also affected by corruption and informal practices discovered in the districts/municipalities studied. As Faiz (2011) suggested (and as is mentioned in Chapter 5), the direct election system that was applied to select mayors/districts heads in Indonesia is in fact a very costly process for the candidates. The elected leader therefore had an interest in getting their ‘investment’ back through whatever means possible. The finding of this study was consistent with that of Faiz (2011). One district head mentioned in interview that it was taken for granted that elected leaders received up to 10 per cent of a project’s value in the form of ‘project fees’ from contractors (that is, for projects valued at over IDR1 billion).

The working unit (i.e. public works) dealing with many large-scale projects was often used to cover any off-budget expenditures. The local budget team anticipated these by allocating a higher budget for the agency than was actually needed. One example of ‘off-budget spending’ was the provision of ‘extra’ services to the audit team (from the Supreme Audit Office). Local

government stakeholders (including elected leaders) avoided irregularities in budget spending being exposed and included in the audit report by negotiating the audit findings with the audit team. Specifically, the head of finance office would negotiate with the audit team leader to decide which findings were to be reported and which to be corrected.

Another example of off-budget spending was money paid to members of the local parliament in order to speed up the approval of the budget proposal. This practice affected the reliability of the figures (KPIs) reported by the Finance Office. Meetings between a local parliament and local government to discuss budget proposals sometimes took place in a hotel and the money needed to pay the bribe was obtained through a mark-up on the hotel fee (the hotel received payment up to a maximum of 70 per cent of the total invoice issued; the remaining 30 per cent was paid to members of the local parliament involved in the budget committee). These findings demonstrate how local government in Indonesia worked with two versions of the budget; this study therefore captures evidence of the form of informal practice suggested by Schick (1998) and discussed in Chapter 3.

As indicated in the previous chapter, data problems affected the reliability of the KPIs reported by the districts/municipalities studied, and corruption and informal practices aggravated this issue. The example given in the previous paragraph likely affected all KPIs related to budget allocation, such as ‘capital expenditure to total public works agency expenditure’, KPI 13). The performance of the public works department in relation to KPI 13 would have been compromised by part of its capital expenditure budget being used to cover off-budget expenditure. Thus, the current study captures evidence of how informality affects performance measurement results. More specifically, in the case of the EKPPD, although informality did not prevent local government from reporting performance, practices distorted the numbers reported. Therefore, the findings of this study expand the work of Mimba et al. (2013) by

providing empirical evidence for the influence of informality and the influence of corruption from the supply side⁸³ on performance measurement.

If local government had reported reliable KPIs and the evaluations had been conducted accurately, the first six evaluations almost certainly would have results different from those presented in Tables 8.1 and 8.2. More clearly, if the KPIs reported were reliable and regional, and national evaluations were robust, the EKPOD may have taken place. The reliability of the EKPPD index thus influences use of the EKPPD system.

Comparability of Index

The key informant from the municipality studied at province A (INF1/A/mx) stated that different approaches were needed to optimise the development of regions with different characteristics and to overcome the different problems which emerged in the different regions. He added that problems faced by his municipality were not comparable to those faced by other districts/municipalities in Indonesia. That was the main reason why the EKPPD KPIs, along with the status and ranking obtained from the evaluation, constituted less relevant information for the decision-making process at the local government level. A similar point was also made during the interview with a policy maker at district 2 of province C. He explained that the quality of education in his district could not be compared with that of other advanced districts/municipalities:

Students in the city may attend a private course after the school day finishes, while students in this district go to the fields to help their parents or just play around in the river

According to him, one way to improve the quality of education in his district was to optimise the learning process in school, including giving extra meals to the students to improve their

⁸³ Mimba et al. (2013) acknowledge that their study captures the influence of corruption on performance measurement from the demand side but not the supply side.

nutrition. As a relatively newly established region, district 3 of province C focused on the development of essential infrastructure and facilities, such as offices, roads and bridges. The district head was also planning to build an airport to support the plantation and fisheries export industries. Different characteristics across districts/municipalities thus meant that stakeholders at the local level did not see the relevance of the top-down approach of a performance measurement system such as the EKPPD. INF1/A/mx for example did not believe that the status and ranking achieved by his municipality was a true reflection of its performance.

As pointed out by INF1/A/mx, regions in Indonesia are very diverse. Moreover, districts/municipalities did not start from the same point of departure when decentralisation policy was implemented in 2001. At the same time, as mentioned in the discussion about the design of the EKPPD system (see Chapter 6), the EKPPD is not equipped with procedures to account for the specific circumstances of different regions. The EKPPD index therefore faces a major challenge in terms of comparability across regions. Based on the interview with one of senior officials at municipality 2 of province C, the municipality 2 for instance found the minimum service standard for its education sector less relevant in terms of informing the decision-making process because they had achieved a level far beyond the minimum service standard. On the other hand, the key appointment holder in charge of reporting data for KPIs of EKPPD at education agency of municipality 1 of province C said that for municipality 1, the minimum service standard set by the government was difficult to implement for them, the standard was too high.

As mentioned above, district 3 of province C as a newly established region focused on infrastructure development; it still therefore had a long way to go to achieve the minimum service standard for public services. Measuring performance of different regions using a

minimum service standard provides an advantage to developed regions but disadvantages under-developed regions:

- (i) Developed regions find KPIs are not useful, as they need a higher standard;
- (ii) For regions in the middle, the KPIs may be still useful;
- (iii) For under-developed regions, higher efforts are required to achieve the minimum service standard.

The education sector in municipality 2 of province C had achieved a very high standard compared to other districts/municipalities within province C because of its long history and tradition as a centre for education, long before independence. Since the 1920s, the city had been a destination for students from neighbouring regions, and even neighbouring countries, such as Malaysia and Brunei Darussalam. When the government started to provide free basic education in 2005, the municipality 2 started to provide free education at high school level. Thus, the high quality of education in this city achieved today cannot be assessed in isolation from its long history. This evidence confirms a statement of Jones and Pendlebury (2010, p. 19) that was quoted in the previous chapter:

The government services provided today are inseparable from those provided in the past and, given that security, health and education are of the most fundamental cultural kind, from the long distant past.

Year	2009		2010		2011		2012	
Rank	District	Province	District	Province	District	Province	District	Province
1	Jombang	East Java	Sleman	Yogyakarta (Java)	Tuban	East Java	Kulon Progo	Yogyakarta (Java)
2	Bojonegoro	East Java	Wonosobo	Central Java	Tulungagung	East Java	Gowa	South Sulawesi
3	Sragen	Central Java	Boyolali	Central Java	Jombang	East Java	Jepara	Central Java
4	Pacitan	East Java	Karanganyar	Central Java	Pacitan	East Java	Pasaman	West Sumatera
5	Boalemo	Gorontalo (North Sulawesi)	Jombang	East Java	Purbalingga	Central Java	Sleman	Yogyakarta (Java)
6	Enrekang	South Sulawesi	Luwu Utara	South Sulawesi	Semarang	Central Java	Purbalingga	Central Java
7	Buleleng	Bali	Kulon Progo	Yogyakarta (Java)	Enrekang	South Sulawesi	Pacitan	East Java
8	Luwu Utara	South Sulawesi	Pacitan	East Java	Sleman	Yogyakarta (Java)	Bangkalan	East Java
9	Karanganyar	Central Java	Sukoharjo	Central Java	Jepara	Central Java	Tuban	East Java
10	Kulon Progo	Yogyakarta (Java)	Bogor	West Java	Humbang Hasundutan	North Sumatera	Jombang	East Java

Table 8.3 Top 10 Performers in the 2009, 2010, 2011 and 2012 Evaluations: Districts

Source: Developed by author, processed from ranking published by MoHA for evaluation conducted in 2009, 2010, 2011 and 2012.

Year	2009		2010		2011		2012	
Rank	Municipality	Province	Municipality	Region	Municipality	Province	Municipality	Province
1	Surakarta	Central Java	Yogyakarta	Yogyakarta (Java)	Tangerang	West Java	Semarang	Central Java
2	Semarang	Central Java	Magelang	Central Java	Madiun	East Java	Madiun	East Java
3	Banjar	West Java	Tangerang	West Java	Yogyakarta	Yogyakarta (Java)	Surakarta	Central Java
4	Yogyakarta	Yogyakarta (Java)	Semarang	Central Java	Depok	West Java	Probolinggo	East Java
5	Cimahi	West Java	Samarinda	East Kalimantan	Medan	North Sumatera	Tangerang	West Java
6	Sawahlunto	West Sumatera	Bogor	West Java	Cimahi	West Java	Mojokerto	East Java
7	Probolinggo	East Java	Sukabumi	West Java	Surakarta	Central Java	Tegal	Central Java
8	Mojokerto	East Java	Depok	West Java	Mojokerto	East Java	Balikpapan	East Kalimantan
9	Sukabumi	West Java	Makassar	South Sulawesi	Tegal	Central Java	Depok	West Java
10	Bogor	West Java	Cimahi	West Java	Sawahlunto	West Sumatera	Salatiga	Central Java

Table 8.4 Top 10 Performers in the 2009, 2010, 2011 and 2012 Evaluations: Municipality

Source: Developed by author, processed from ranking published by MoHA for evaluation conducted in 2009, 2010, 2011 and 2012.

Tables 8.3 and 8.4 present the 10 best performers for the category of district and municipality respectively for four evaluations. The shaded cells represent regions outside Java. The data above can be summarised as follows:

	2009		2010		2011		2012	
Position	Java	Outside Java	Java	Outside Java	Java	Outside Java	Java	Outside Java
1 st rank	x		x		x		x	
2 nd rank	x		x		x			x
3 rd rank	x		x		x		x	
4 th rank	x		x		x			x
5 th rank		x	x		x		x	
6 th rank		x		x	x		x	
7 th rank		x	x			x	x	
8 th rank		x	x		x		x	
9 th rank	x		x		x		x	
10 th rank	x		x		x	x	x	

Table 8.5 Summary of Top 10 Performers in the 2009, 2010, 2011 and 2012 Evaluations: Districts

Source: Developed by author, summarised from Table 8.3

	2009		2010		2011		2012	
Position	Java	Outside Java	Java	Outside Java	Java	Outside Java	Java	Outside Java
1 st rank	x		x		x		x	
2 nd rank	x		x		x		x	
3 rd rank	x		x		x		x	
4 th rank	x		x		x		x	
5 th rank	x			x		x	x	
6 th rank		x	x		x		x	
7 th rank	x		x		x		x	
8 th rank	x		x		x			x
9 th rank	x			x	x		x	
10 th rank	x		x			x	x	

Table 8.6 Summary of Top 10 Performers in the 2009, 2010, 2011 and 2012 Evaluations: Municipality

Source: Developed by author, summarised from Table 8.4

As clearly presented in the two tables above, the results of the last four evaluations have demonstrated the domination of Javanese regions among the 10 best performers. Moreover, none of districts from Kalimantan and Papua and Nusa Tenggara have ever achieved a position in the top 10. This data supports the previous argument that the EKPPD benefits developed regions and undermines the performance of under-developed regions.

To sum up, standardised KPIs do not capture the specific circumstances of different regions, which are very diverse in many aspects (geography, economy, social, ethnicity, culture and religion). This weakness is acknowledged by the Minister of Home Affairs, who has mentioned the need for clustering different regions (Haluan, 2012).

Reliance on Output Measures

As discussed in chapter 6, for the technical and political considerations, the EKPPD design system mainly adopts output indicators. However, Jones and Pendlebury (2010, Chapter 2) remind us that output indicators are likely to be less relevant to the decision-making process. Taking as an example KPI 9, which relates to the assessment of the policymaker, the indicator for performance is ‘timeliness of performance report submission to the government according to regulation’ (see detail in Table 8.7 below).

Measurement Level	<i>Policymaker</i>
Measurement aspect	Harmony and effectiveness of relationships between government and local governments, and among local governments in the corridor of regional autonomy development (second aspect)
Measure number	9th
Description of measure	Timeliness of performance report submission to the Government according to regulation
Measure of achievement	On time/not on time
Supporting evidence	Proof of report submission ⁸⁴

Table 8.7 KPI 9 (Policy-maker)

Source: Circulation letter of Ministry of Home Affairs Number 120/313/OTDA, 24th January 2011.

The basic question for this kind of KPI is whether ‘timeliness of report submission’ is a true reflection of the harmony and effectiveness of the relationship between local and national governments. The discussion in Chapter 7 has demonstrated how ‘timeliness of report submission’ is a very serious issue in relation to the EKPPD. In 2012, for example, due to its limited capacity, district 3 at province C was unable to submit its performance report by the

⁸⁴ When local governments submit their performance report, it is usually accompanied by a letter signed by the mayor/district head. The date this letter is signed is the basis on which the submission is judged to be on time or not.

deadline (see discussion in point 7.3.1). Its inability to submit a performance report was thus nothing to do with the degree of harmony and effectiveness of its relationship with the national government, but purely a problem with institutional capacity. Therefore, KPI 9 can be misleading in judging the quality of the relationship between national and local governments. The second example is KPI 11 (Table 8.8, below).

Measurement Level	Policymaker
Measurement aspect	Harmony and effectiveness of relationships between government and local governments and among local governments in the corridor of regional autonomy development (2 nd aspect)
Measure number	11 st
Description of measure	Implementation of minimum service standard
Measure of achievement	Number of functions whereby minimum service standard have been implemented
Type of data	Mentioned number of function (.....functions) and then list the function: <ul style="list-style-type: none"> - Function..... - Function..... - Function..... - Function..... - Function..... - Function.....

Table 8.8 KPI 11 (Policymaker)

Source: Circulation letter of Ministry of Home Affairs Number 120/313/OTDA, 24th January 2011

KPI 11 captures information about whether the minimum service standard for certain functions has been implemented or not yet ('YES' or 'NO'). However, the extent to which the minimum service standard for the respective functions has been achieved is not captured. That is why this type of indicator is categorised as a raw measure or low level of output. The evidence shows different levels of implementation in the different districts/municipalities studied. As mentioned above, municipality 2 at province C achieved far more than the minimum service standard for the education sector. On the other hand, the implementation of the minimum service standard in municipality 1 at province C reached a level of about 80 per cent of the minimum service standards. KPI 11, however, cannot distinguish between these levels of achievement and both municipalities were assigned the maximum score of 4 for this indicator.

The type of KPIs adopted at the policy implementer level face similar problems. For example, the effectiveness of policies made by local policymakers is measured through the ‘completeness of planning documents owned by the policy implementers’ (see Table 8.9).

Measurement Level	Policy Implementer
Measurement aspect	Local development planning (5 th Aspect)
Measure number	9
Description of measures	Completeness of planning documents owned by the policy implementers
Measurement of achievement	Availability of three types of documents: <ol style="list-style-type: none"> 1. Strategic planning document 2. Work plan document 3. Budget plan document

Table 8.9 KPI 9 (Policy Implementer)

Source: Circulation letter of Ministry of Home Affairs Number 120/313/OTDA, 24th January 2011

KPI 9 only captured information about whether the planning documents were complete or not. It did not, however, record whether these documents were utilised or not. Key informants in several of the districts/municipalities studied acknowledged that in practice the planning documents were often not consulted. Thus, for KPI 9, if working units had the three types of documents (strategic plan, annual work plan and budget plan) the maximum score of 4 was assigned, regardless of whether the plans were followed in practice or not. No difference was thus recorded between working units which had complete planning documents and used them to guide their work, and those which merely owned the documents and did not use them.

Controllability of Performance

Chapter 6 also discussed how the EKPPD was designed as functions-based performance measurement system. The serious difficulty with this system is how to attribute performance. Contributions to the performance of a specific function might be made by several working units (see discussion in point 7.3.1). At the same time, the heads of these working units were concerned with the performance of the organisations they led. They were accountable to the elected leaders based on a performance contract concluded prior to their appointment.

Moreover, a functions-based performance measurement system (such as the EKPPD) differs from the LAKIP performance measurement system which was departmental-based. This difference explains why the heads of the working units were more familiar with LAKIP than the EKPPD (apart from the fact that LAKIP was introduced much earlier than the EKPPD).

8.3.3 Strong influence of elected leaders

As mentioned in section 8.2, all key informants acknowledged that the EKPPD results had no impact on the policies and programmes undertaken in their respective districts/municipalities. According to INF1/A/mx, the central reference point for the stakeholders in the municipality observed in province A when making decisions was the vision and mission statement of the elected leader:

For everything that takes place at the local government should refer to the local mid-term plan. This plan is a transformation of the vision and mission statement of the mayor. The mid-term plan determines programme priorities for five years, annual plan and budget allocation. Thus, we are not going in any different direction just because the government introduces the EKPPD. (Interview with INF1/A/mx on the 4th January 2012)

As mentioned in Chapter 5, in 2005 Indonesia introduced a system of direct election for the head of district/mayor. Each elected leader has a vision, missions and programmes that they want to accomplish during the five year term of office, which in practice is equal to the local mid-term plan. Ideally, the local mid-term plan should be linked to local strategic planning, and local long-term planning should refer to the national long-term plan. This is mandated in Law 17/2007 on the national long term plan 2005-2025 (see Article 6, which implies that the formulation of the vision, missions and programmes of the elected leaders should align with national goals). The practice, however, was far from ideal, as commented on by INF8/C/m2 who was twice involved in formulating the local mid-term plan.

Investigation of the three districts and six municipalities indicated that the vision and missions were very much dependent on individual leaders. As well as a strong tendency to promote local identity, the educational background and previous career of elected leaders were among the important factors which shaped their vision and missions. Moreover, political affiliation (which party sponsored individuals to participate in the election) influenced the policy direction taken by those elected during the course of their leadership. In addition, the general secretary of district 3 at province C stated:

The [elected leaders] who come and go every five years determine everything in the way this district operates. All of us here [bureaucrats] just have to adjust things accordingly to align with his vision and missions.

The implication is that this position of strength enabled elected leaders to control stakeholders at local level, and that the heads of working units preferred to follow the requirements of the elected leader rather than refer to national policy. This argument was supported by the explanation of INF5/C/m2. According to him, each head of a working unit in the municipality signed a performance contract with the mayor. For example, the target for the education agency was to achieve an international standard for the senior high school, enabling students to enrol in overseas universities (students graduating from high school in Indonesia cannot usually apply directly to overseas universities as the standard is different).

The reason local government stakeholders tended to follow their elected leaders was that the vision and mission statement made by these leaders was a political contract between the leaders and the local parliament:

The local medium-term plan [a manifestation of the vision and missions statements of elected leaders] is a political contract between elected leaders and local parliament. So we just stick to this plan in whatever we do [for five years], and whatever new systems [e.g. EKPPD] are introduced, we cannot just change direction (Interview with INF1/A/mx).

Every year in the accountability speech to the local parliament, the mayor would be held accountable according to the extent his vision and missions had been achieved. This accountability report was placed second in importance for local government stakeholders after the financial report; a finding supported by results of a survey of 31 districts/municipalities as presented in Figure 7.16. As Table 7.9 shows, 41.94 per cent of respondents considered the accountability report of the elected leaders to local parliament to be the second priority, while only 19.35 per cent of respondents considered the LPPD report (used as the basis for the EKPPD) to be the second priority. The majority perceived the LPPD report to be the fourth priority for local government stakeholders (35.48%).

Evidence found in the district 2 at province C supports the statements of INF1/A/mx and a high official at district 3, province C. One of key informants at the district 2 of province C stated that the previous district head wanted to construct a modern hospital, and as construction was incomplete in the final year of his term, he instructed the local budget team to shift resources allocated to other purposes to its completion. The local budget team tried to cut the budget from different programmes. However, before the budget was approved by the local parliament, the amount shifted from the different programmes was still insufficient to ensure the completion of the hospital. To address this, the local budget team made a massive cut to the budget allocation for the agriculture agency. Accidently, the budget allocation was cut from the core programmes of the agency. As a consequence, the agency could not run its main programmes for that given year. This is further evidence of the power of the elected leaders in determining local budget allocations. This finding thus supports the work of Mimba et al. (2013).

Van Helden and Reichard (2013) suggests that contingency factors could be distinguished into three levels: societal, sectoral and individuals levels. The case of the EKPPD showed empirical evidence for the influence of contingency factors at the individual level on performance

measurement. As discussed earlier, the education and previous career background of the elected leaders shaped the way they defined their visions and missions to be accomplished over their five year term of office. Accomplishment of these visions and missions were key to programmes undertaken at local government over the course of five years. Therefore, information produced by the EKPPD as a performance measurement system had no influence on policies and programmes formulated at the local level. This finding also support De Lancer Julnes and Hozler's (2001) argument related to the influence of internal interest on performance measurement, as discussed in chapter 2.

8.3.4 Disconnection of performance measurement system to resources allocation

According to one of high officials interviewed at MoHA, for the EKPPD results to be useful, they needed to be linked to resource allocation. More specifically, the EKPPD was supposed to be linked to the transfer from the national government to local government. However, this transfer used a formula that was nothing to do with the EKPPD. This informant highlighted the coordination with MoF as the ministry managing transfers to local government. The variables used by MoF to determine general allocation fund for local government is displayed in Figure 8.2 below.

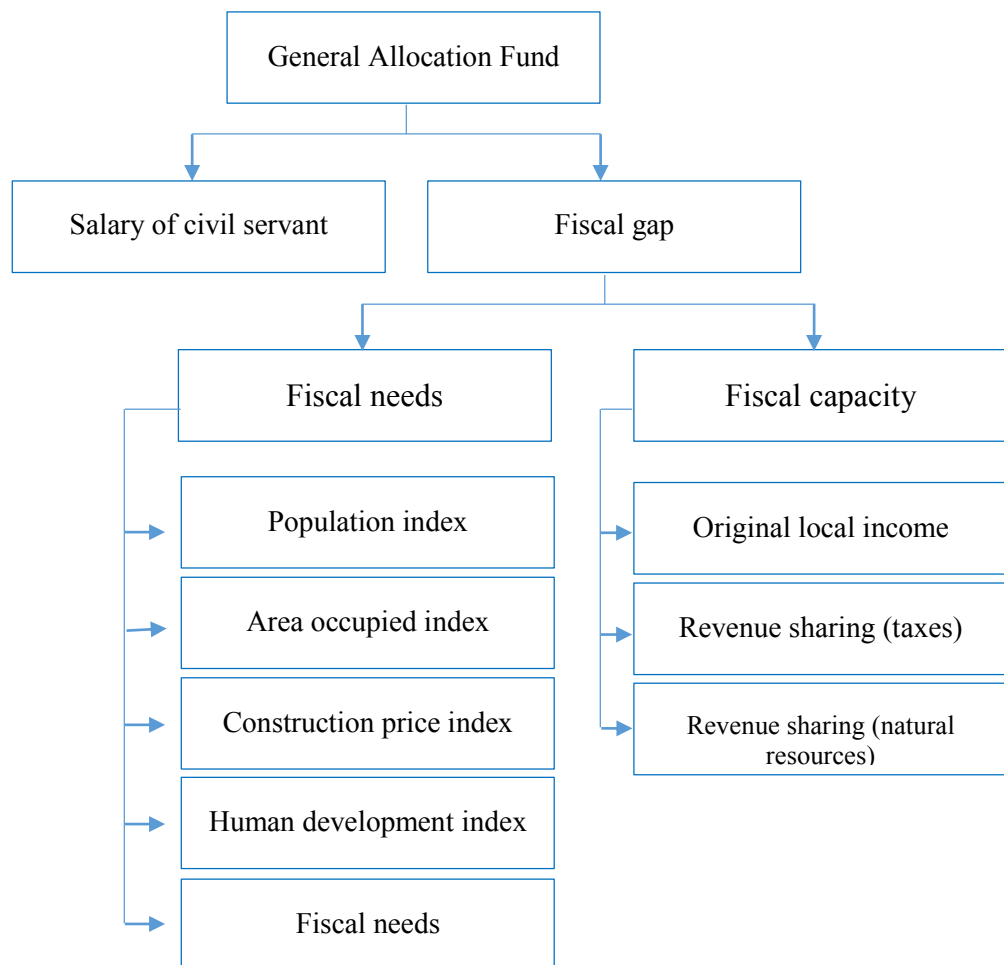


Figure 8.2 Variables of General Allocation Funds

Source: Indonesian Ministry of Finance, Directorate of Fiscal Balance Central and Local Government (n.y.)

The disconnection between resource allocation and the EKPPD also explains why the EKPPD has no effect on local policymaking. I believe that if the EKPPD is connected to resource allocation (that is, if the EKPPD result determines transfers to local government), the EKPPD must get full attention from stakeholders at local government. This argument was supported by the explanation of key informants who suggested that elected leaders were more concerned with the type of reporting that had financial implications than those that had no financial consequences (this point was discussed in the previous chapter). The financial report influenced many aspects of local government operation. For example, a delay in submitting the financial

report to the Supreme Audit Office caused a delay in approval of the report by the local parliament (the regulation requires the financial report to be audited before it can be approved by the local parliament). The delay in the approval of financial report for fiscal year of 201X for example would delay in the process of budget revision for the fiscal year or 201X+1. Delays in budget revision brought other implications such as insufficient time to execute programmes inserted in the budget revision.

The issue of the disconnection between resource allocation and the results of the evaluation was also commented on by one of the survey respondents:

The EKPPD was relatively separated from the local government work plan; therefore the result received insufficient attention as a basis to plan the future work plan. (ks2.d)

Another respondent commented:

There should be reward and punishment... when the result is good, the government should give additional budget allocation for local government... but when the performance is poor, there should be a punishment too. (y.4.d)

Another response linked the lack of commitment and attention of other stakeholders in local government, commitment of the elected leaders and reward and punishment (r3.m). A similar answer was provided by another respondent:

So far, there is no a clear reward and punishment. As a result, many elected leaders have not focused on implementing the EKPPD and therefore, the EKPPD only becomes a routine activity. (r.1.d)

The four responses to the open-ended question in the survey questionnaire above highlight the importance of reward and punishment for the EKPPD to receive enough attention from the internal stakeholders of local government, including the elected leaders. Thus, the comments from the survey data supported the findings from the interviews discussed earlier.

MoF applied a policy of reward and punishment to encourage each local government to submit its financial report on time. For example, there would be a cut in the general allocation of funds

to any local government which submitted its financial report after the deadline of 31st March. This cut was a certain percentage of the total transfer, which increased gradually with the length of the delay. For example, a one-month delay resulted in a two per cent cut, a two month delay in a ten per cent cut and a three month delay in a 15 per cent cut. Conversely, there was reward of 15 per cent extra for any local government managing to submit its financial report on time. With real financial consequences such as these, local governments began to show more concern for their financial report. The EKPPD system, however, does not include financial incentives. Good performers received appreciation from the government in form of certificate. On the other hand, as discussed earlier, those local governments whose performance has been low for three consecutive years under the EKPPD system will have to face another evaluation using the indicators of EKPOD.

At local government level, resource allocation was influenced by the interests of elected leaders as discussed earlier. The missing link between the EKPPD and the local budget cycle was also acknowledged by INF2/B: thus, ‘We cannot see where to connect the EKPPD to the budget process.’ This is consistent with Taraschewski and Wegener (2011), who state: ‘there is no systematic link to the planning process to inform the next budget and program plan in order to improve upon objectives based on specific indicators’ (p.50). The findings of this study also agree with Radin (1998) who argued that the institutionalisation of performance measurement into the budget process would create an important link to decision-making and encourage it to be taken seriously by the object being measured.

8.3.5 System design

The description of how local policies are formulated in the previous section pointed to the diversity of local objectives. The different objectives were influenced by the specific characteristics of the regions and the elected leaders. On the other hand, the EKPPD system

imposed a set of standardised KPIs. Key informants at local government level highlighted that the standardised KPIs for a country as diverse as Indonesia seem to be inappropriate. Municipality 3 for example, strongly complained that the tourism function is only measured through two KPIs:

- 1) Number of tourist visits per year, and
- 2) Contribution of the tourism sector to regional gross domestic product

These two KPIs were assumed to not fully capture municipality 3's performance in tourism, which was the function with the highest priority in this municipality.

Tourism was weighted very lightly in the EKPPD system because it was classified as an optional function. The EKPPD placed heavy weight on obligatory functions such as education and health. In this sense, the weighting system (see Figure 6.7) benefited regions with priorities which fell into the category of obligatory functions, and punished regions with those in the category of optional functions. From a national government perspective, obligatory functions were weighted heavily, because with decentralisation, local government was supposed to provide local people with at least the minimum level of basic services.⁸⁵ This perspective was reflected in the interview with INF2/NG. Local government, however, had a different perspective. Interviews with the four elected leaders indicated that the priority of elected leaders in the context of decentralisation was to build a strong foundation for local economies through exploring and utilising local potencies.

8.3.6 Evaluation feedback

Finally, insight derived from the interview with INF4/NG also explained the non-use of the evaluation results at the local level. INF4/NG highlighted the long gap between the year of the

⁸⁵ Basic services are categorised as obligatory functions.

performance being evaluated and the year for completing the evaluation and giving the feedback on performance. This gap of two years rendered the feedback less relevant to the decision-making process at the local level, such as for budget formulation. INF4/NG was supported by a comment from a survey participant: “The results of the evaluation conducted by the regional and the national government often arrive late and seem to lack transparency” (r.1.d). Analysis of the evaluation reports produced by regional and national evaluation teams show that the type of evaluation feedback at both the regional and national levels merely recorded the score achieved by local government for each measurement aspect and function. The report also described in which area local governments attained a very high, high, medium or low score, with no real recommendations provided on how to improve performance.

8.4 Dysfunctional effects

The discussion in the previous section focused on the non-use of evaluation results using the EKPPD system. During the investigation, however, I found evidence of a number of dysfunctional effects. Firstly, it is possible that some elected leaders paid attention to the EKPPD merely to enhance their reputation. This is based on evidence discovered during the interview with a senior official at MoHA. The official received a call from municipality Z offering to host the celebration of Regional Autonomy Day in April 2012. As mentioned earlier, 25th April is when the Indonesian government announces the status and ranking of districts/municipalities according to the EKPPD system. INF4/NG reported that municipality Z’s offer was contingent on the municipality being ranked as one of top ten best performers. Hosting such an event on a national scale would require substantive costs as it would be attended by the vice president, members of various ministries, 33 governors and over 500 mayors/districts heads across Indonesia.

Furthermore, the interview with the INF5/NG revealed evidence that some regions had hired the Financial Development Supervisory Body to act as a consultant in preparing their EKPPD performance report. The Financial Development Supervisory Body was also the one that would evaluate the performance report after it had been prepared, and there was thus a conflict between the two roles it played. Regions which lacked the capacity to prepare the report themselves (but still wanting to obtain a high score) employed a short cut, namely hiring the evaluators to make the report for them.

Implementation of the EKPPD also created an opportunity for corruption on the part of the evaluators. According to INF3/C/m1, on one occasion he asked for an explanation from the national evaluation team as to why the ranking of his municipality in the 2011 evaluation represented a dramatic decline in comparison with the previous evaluation. In response, the national evaluation team asked him, ‘Did you serve the evaluators who came for field visit?’ INF3/C/m1replied:

Yes, we welcomed the evaluators and served them according to our normal way of serving our guests. We provided all the data to be clarified. We offered whether they wanted to cross check the data to the working units that supplied the data.

According to INF3/C/m1, the national evaluation team responded: ‘Was that all? No other kind of service?’ INF3/C/m1said that initially he did not understand the meaning of the latter question, but later on he realised it referred to the provision of money. In this example, EKPPD implementation represented an opportunity for irresponsible evaluators to obtain personal benefit (corruption).

The triggering of corruption is perhaps the most different type of dysfunctional effects of measuring performance than those discussed in the literature. This difference connects to a specific characteristic of the context of developing economies (namely, the prevalence of corruption) as identified by Mimba et al. (2007) and as discussed earlier (see Chapter 3). This

finding implies that performance measurement introduced in a corrupt system can lead to further corruption instead of reducing it. It is also consistent with the study of Harun et al. (2012, see p. 273) on the adoption of an accrual accounting system by Indonesian local government, which suggests that it has stimulated corruption as local government hired consultants to help with preparing the financial report. In order to win the project, the consultants had to bribe the local government official in charge.

8.5 Conclusion

The findings of this study indicate that there was no evidence of use of the information produced from the performance evaluation under the EKPPD system either by the national government or local government. After six rounds of evaluation, no further evaluation (i.e. EKPOD) has taken place yet, and therefore, no district/municipality has been either merged or abolished. The intermediate use to design capacity building programmes to help poorly performing local governments to improve their performance has also not been done yet. What has taken place has been limited to a) the routine activity of reporting local government performance and the evaluation of the performance report, both regionally and nationally, and b) the status and ranking of districts/municipalities being announced annually to celebrate Regional Autonomy Day. This constitutes a very narrow use compared to the effort expended. The powerful influence of elected leaders in directing local policy implies that government efforts to align national and local policy through the EKPPD have also not yet been achieved, and that national government has not regained control over local government. The findings of the study show some forms of dysfunctional effects (i.e. corruption) and ‘gaming’ of the system.

Five major factors which contribute to EKPPD results not being used are (1) regulation, (2) the challenges of the performance index, (3) the elected leaders, (5) the disconnection of the performance measures with resources allocation, and (5) the system design. Firstly, sector ministries need an implementing regulation in order to design and carry out capacity building programmes to help poorly performing regions improve their performance. The completion of this implementing regulation has been delayed and has not been finished yet. Secondly, the index produced from the evaluation as a basis for further stages of evaluation (concluding with merger and abolishment) has been distorted by numerous factors. The reliability of the index seems to have affected use. Hence, the narrowness of the index is inadequate for capturing the overall performance of districts/municipalities which have different characteristics and objectives.

Thirdly, the strong influence of elected leaders has influenced the use of the EKPPD on both sides, both national government and local government. More clearly, the strong influence of elected leaders means that imposing control over local government does not work; stakeholders at local government level have continued working towards the achievement of the visions and missions of the elected leaders. Then, a disconnection between the EKPPD results and resource allocation works in two ways: there was a missing link between resource allocations from: a) the national government to local government and b) from local government to the working units. Finally, the influence of system design on the use of the EKPPD result was seen more obviously from a local government perspective.

The final point to be made is in relation to system design and the context of Indonesian local government. Given the significant diversity of regions in Indonesia, compounded by the very strong influence of district heads/mayors in directing local policies (as a consequence of the direct election system), the use of a top-down approach and standardised measures are unlikely

to be appropriate. The powerful position of the elected leaders suggests that performance measurement which is internally developed may work better in terms of how working units will respond to performance measurement. In addition, performance measurement system rely on a large quantity of data such as the EKPPD seems to be not suitable with current condition of Indonesia as reflected from a statement of one of key informant:

Performance measurement relying on the large scale quantitative data is not suitable yet for Indonesia. You know how difficult the availability of data is. Obtaining data here is like trying to capture ten grasshoppers. Therefore, the result was unbelievable (INF6/NG).

‘Obtaining data is like trying to capture ten grasshoppers’ is an analogy used by INF6/NG to describe the difficulty of accessing data.

CHAPTER 9

DISCUSSIONS AND CONCLUSIONS

9.1 Reopening the Case

This study aims to improve our understanding of performance measurement systems in the context of developing economies. More specifically, this study intends to understand (1) the driving forces of the development of performance measurement systems in this context, (2) the effectiveness of their design, implementation and use, (3) the factors that have influenced the effectiveness of the performance measurement systems applied in this context in terms of its three main phases: design, implementation and use, and (4) how the complex, non-linear interactive effects of the different factors influence the design, implementation and use. The new performance measurement system being applied in Indonesia which is aimed at assessing the performance of local government in the context of re-designing decentralisation policy has been used as a case study to address the five research questions posed in this study.

RQ1. Why was this new performance measurement system established in Indonesia and how?

This first question aims to achieve the first objective of the study – to understand whether the EKPPD has been developed for the purposes of functional use (i.e. to improve performance) or to serve other purposes that are nothing to do with improved efficiency and effectiveness of public service delivery at the local level, which will be consistent with argument of institutional theories. Furthermore, if the system has been developed for non-functional reasons or a combination of functional and non-functional arguments, where did the pressures come from? Were they merely internal or were international donor agencies involved? If international donor agencies were involved, how did they exert their influence? These questions stem from the

concept of institutional isomorphism (DiMaggio and Powel, 1983). Chapter 6 addresses this first research question.

RQ2. What system design does the new performance measurement system in Indonesia follow? Why was it designed in the way it was and how effectively has the system been designed? This second research question connects to the second objective of the study. This question was informed by the key argument of contingency-based studies: the design of accounting tools (e.g. performance measurement systems) should fit with the context (Otley, 1980; Chenhall, 2003; Van Helden and Reichard, 2013) – a fit between design and context is expected to bring improved performance while a poor fit will damage performance. This second question was also inspired by the institutional arguments: conflict of interests among different stakeholders may affect features of design such as the selection of indicators. Chapter 6 addresses this question.

RQ3. How effectively has the new performance measurement system been implemented? This third research question also links to the second objective of the study. This question was inspired by the work of Mimba et al. (2007) who identify specific characteristics of the public sector in the context of developing economies that are different from those in the developed economies. Chapter 7 provides answers to this question.

RQ4. Is there any evidence of use of the information produced from this new performance measurement system? If there is any evidence, how has the information been used? If there is no evidence, why has the information not been used? This question also aims to achieve the second objective of this study. It was also motivated by studies drawn from institutional approaches in researching performance measurement systems. Chapter 8 answers this question.

Finally, RQ5. Which factors influence the design, implementation and use of the new performance measurement system in Indonesia? How do the complex interactions between

technical, organisational and institutional factors work to influence this design, implementation and use? This study was derived from contingencies-based studies. I was influenced primarily by the work of authors such as Cavaluzzo and Ittner (2004), De Lancer Julnes and Hozler (2001) and Van Dooren (2005). The answer to this final question is reflected in the three findings chapters: chapters 6, 7 and 8 but further elaboration is needed and will be discussed below.

This chapter starts by presenting the main findings of the study. This section elaborates further the findings discussed in chapters 6, 7 and 8. The subsequent sections discuss the academic contributions and practical implications of this research, revisit of expectations set the beginning of the study, address the limitations of this study, provide conclusion of the study, present lessons gained from the PhD process and finally notes potential for future research.

9.2 Main Findings

9.2.1 Drivers

The decentralisation policy implemented in Indonesia in 2001 (under law 22/1999) brought about several negative implications. These implications can be classified into (i) the threat for the unity of the country in the long term, (ii) inconsistencies of some practices at the local level with neoliberal principles, (iii) decentralised corruption, and (iv) environmental degradation. The negative implications caused re-definition of decentralisation through law 32/2004. The redefinition of decentralisation meant reducing freedom of regions as decentralisation is no longer the devolution of authority only but also include a responsibility. The new definition implies that the government wanted to re-exert control over local government. The new law mandates the development of technical instrument to merge or abolish incapable regions in implementing decentralisation policy. Since the legal basis for the development of the new

performance measurement initiative contains a spirit of re-centralisation, it implies that the new performance measurement initiative was aimed to achieve recentralisation effort. The objective of establishing the new performance measurement to support re-centralisation is manifested in the measurement aspects adopted in the new measurement system which clearly aims to align local and national policies. Indirectly, this implies an intention to create a uniform system of local government programmes in Indonesia, as existed during the centralised era.

The internal demand for measuring performance of Indonesian local government was supported by the international donor agencies, the World Bank in particular. The support was connected to the World Bank's interest in protecting its neoliberal agenda in the country. The evidence to support this argument arises from two things. First of all, the literature suggests that the radical decentralisation implemented in Indonesia from 2001 onwards had some negative implications, namely, 1) local government became an active economic actor instead of supporting the private sector to participate in regional economic development, 2) local government tended to issue regulations which were uncondusive for the investment climate to grow, and 3) protection of property rights was weakened (in that a desire to take over foreign companies operated in the regions). The second item of evidence is that the measurement framework built and offered by the World Bank to be adopted as an instrument to measure the performance of Indonesian local government in the context of decentralisation showed a strong influence of neoliberal principles. This is manifested in one of the measurement aspects included in the framework (investment climate).

Both internal and external interests to establish a new performance measurement initiative were also influenced by global commitments, such as the aim to achieve the MDG target by 2015. In Indonesia, the implementation of decentralisation brought about a shift in responsibility for achieving the MDGs to local government, triggering the need to track and monitor how well

local government performed in this regard. The influence of the MDGs on the new measurement system is clearly evident in the KPIs adopted, such as those covering the education and health sectors. The drivers thus were not mainly connected with the basic premise of performance measurement discussed in chapter 2 (namely, improved performance in terms of efficiency and effectiveness).

9.2.2 The role of international donor agencies

The new measurement system has been considerably influenced by (and has received the support of) international donor agencies, from the very beginning of the initiative up to its initial implementation. The World Bank played an extremely important role in initiating the new system, and also built a measurement framework which was planned for use as a basis from which to develop the indicators to assess the performance of Indonesian local government. Although the new measurement system finally adopted a different framework, the influence of this framework constructed by the World Bank cannot be ignored. Another international development agency, CIDA, played a significant role at a later stage of the design process, providing foreign and local expertise to design the measurement system and draft the regulation on the EPPD, and to arrange seminars and workshops to discuss the system design. Finally, the Asian Development Bank provided a loan to cover the draft of the regulation and to finance the first year of implementation. This finding is evidence of how the ECD concept (discussed in Chapter 3) formulated by the World Bank and other international development agencies works in practice.

Thus, as with many other reforms being undertaken in most developing economies, performance measurement can hardly be said to be free from the influence of international donor agencies. These agencies, in particular the World Bank, are key actors in the introduction of performance measurement in developing economies. Almost all international donor

agencies have ECD programmes containing strategies on how to generate internal demand for performance measurement in developing economies, how to transfer the skills needed to conduct performance measurement, and how to ensure performance measurement is put in place and used in developing economies. ECD efforts provide evidence of the high interest of international development agencies in transferring the performance measurement idea to the context of developing economies. ECD encompasses every phase of a performance measurement system (design, implementation and use) and it was applied as part of the EPPD. This implication is that the influence of international donor agencies in relation to the new Indonesian performance measurement initiative was significant.

This involvement of international donor agencies means that performance measurement in developing economies needs to accommodate a wider range (both internal and external) of stakeholders. This implies the need for compromise on a greater number of interests and goals, which in turn increases the likelihood of conflict of interests occurring. Discussion about the high conflict of interest among multiple stakeholders, that was clearly evident in the case studied, will be elaborated further in point 9.2.9.

9.2.3 Design

Characteristics of the new performance measurement system

The EKPPD system proposes the measurement of Indonesian local government performance from two aspects: governance and the services provided. On the one hand, in terms of ‘depth’ of performance, the EKPPD measures performance at the meso level, as the system deals with the achievement of a specific policy field (decentralisation). At the same time, it measures performance at the macro level (local government-wide) as it is concerned with the performance of local government as a whole. It thus covers the performance of local

policymakers and local policy implementers (governance aspect) and the entire range of functions implemented by local government (local government services).

Its design as a local government-wide performance measurement system distinguishes the EKPPD from another performance measurement system which continues to be applied to Indonesian local government (LAKIP). LAKIP deals with the performance of local government organisations (performance at the micro level). Meanwhile, its focus on measuring both the governance aspect and local government services means that the EKPPD shares a characteristic with the prototype of performance measurement applied in the context of developed economies prior the 1930s.

It is recognised in the literature that performance measurement is a complex process. By involving three different levels of government (local, regional and national government) to produce a composite measure of local government performance, the EKPPD becomes a very complex performance measurement system. In addition, its long process with the chance of errors at every step affects the reliability of the composite measure (the EKPPD Index) produced.

Conceptualisation and measurement of performance

Although designed as very complex system in terms of procedures, the EKPPD's conceptualisation of performance fails to capture all the important performance elements (inputs, outputs and outcomes). The EKPPD relies on indicators of output, includes few indicators of outcomes and ignores the cost of services which become measures for inputs. The EKPPD system only takes into account budget allocation (e.g. for nine basic services). The inability of a performance measurement system to include a measurement of costs is not only encountered by developing economies such as Indonesia but also by a number of developed economies. However, from an accounting perspective, the conceptualisation and measurement

of performance according to the EKPPD is incomplete. In addition, the EKPPD system uses measures that only can be understood by specialists.

Methodological issues in the EKPPD system

The EKPPD has several methodological issues which affect the reliability and comparability of the performance index. First, it requires a large volume of data (approximately 800 pieces of data are needed to complete 158 KPIs) while at the same time, the capacity of local government to provide the data is low. This has led to a reliance on prediction data and the high involvement of subjectivity. Next, the absence of techniques able to isolate the influence of exogenous factors is a serious problem in system design. The new Indonesian measurement system assumed that districts/municipalities started from the same point of departure when the country embarked upon decentralisation in 2001. This is one of the most serious weaknesses of the design, as levels of development varied throughout Indonesia when the decentralisation policy came into being in January 2001.

Without the influence of exogenous factors being taken into account, KPIs reported by districts/municipality could not be considered comparable. However, the performance index produced by the new measurement system is used to rank and to determine the status of districts and municipalities throughout Indonesia. A performance measurement system which uses a standardised set of KPIs benefits developed regions and punishes underdeveloped regions.

In terms of timeliness, the design of the new system can be assumed to lack rationality. Local and regional governments have the same deadline (31 March) by which to submit their performance reports. However, regional government KPIs are based upon those reported by local government. Given the difficulties faced by local governments to complete its KPIs, many tended to submit their performance report either on or close to the deadline, putting the regional government in the position of not having time to extrapolate the information necessary to then

complete its KPIs by the same deadline. This issue of timeliness also presents irrationalities to local government. The system involves the use of external data, the availability of which did not match with the deadline for submission of the performance report. Even some internal data (i.e. financial data) was not available in time to process (the audited financial data is likely to be available after June every year). Timeliness has thus become a weakness of the system design, as 'timeliness of report submission' itself is assessed in the EKPPD system (and covered by KPI 10).

Inconsistency thus exists between the principles of measurement and the measurement techniques adopted. The regulation governing the EPPD mentions the principle of objectivity. However, EKPPD measurement techniques include common sense and field visits, which are subjective and vulnerable to misuse. In terms of indicators, many are considerably poorly defined, with meanings which tend to be vague and thus not easily understood by local government and open to interpretation. In addition, flaws in the scoring rules can provide disadvantages for some districts/municipalities but benefits for others. Finally, the system is not tied to resource allocation, meaning there is a lack of incentive for local government to comply with it; good performers receive only a certificate as reward. On the other hand, local government tends to respond immediately to the financial incentive. The system promises a serious punishment for those local governments whose performance is low, with the threat of losing their autonomy rights through a merger with other regions, or even of abolition.

The findings of this study show that Indonesia's capacity to design the new measurement system was inadequate, manifested by its reliance on the assistance of international agencies in terms of:

- a) Initiating discussion in 2005 around the need to establish a new performance measurement system (the workshop was initiated and organised by the World Bank, who also invited foreign experts to present their thoughts in the workshop).
- b) Designing the measurement system and drafting the regulation on the new measurement system (workshops and seminars were organised and financed by CIDA; local and foreign experts involved were assigned and paid by CIDA).
- c) The harmonisation of the regulation on the new measurement system and the first year of implementation (activities were financed by Asian Development Bank through loan provision).

Several obvious weaknesses of system design (for example the poor design of many of the KPIs; flawed scoring rules) provide further evidence of the lack of capacity to design such a system.

9.2.4 Implementation

The implementation phase of EKPPD involved a long and complex process. Different steps of implementation were undertaken at different levels (local, regional and national government) and took two years to complete from the start of data collection to the announcement of local government status and ranking. The steps of implementation are summarised below.

No.	Steps	Activities Involved
1.	Local government reports KPIs	<ol style="list-style-type: none"> 1. Collecting data from all local government organisations and sub-districts 2. Analysing data supplied by local government organisations and sub-districts 3. Reporting KPIs to regional government
2a.	Regional government reports KPIs	<ol style="list-style-type: none"> 1. Compiling KPIs reported by all districts/municipalities within its jurisdiction 2. Reporting KPIs to MoHA
2b.	Regional evaluation team conducts regional evaluation	<ol style="list-style-type: none"> 1. Analysing performance data (KPIs) reported by local government 2. Confirming any unclear data and requesting local government for any unsupplied data 3. Conducting field visit (if necessary) 4. Inputting performance data into the evaluation template 5. Sending inputted performance data to the national evaluation team
3.	National evaluation team conducts national evaluation	<ol style="list-style-type: none"> 1. Analysing performance data of both provinces and local government 2. Confirming any unclear or incomplete data 3. Inputting performance data (for province) into evaluation template 4. Assigning score 5. Determining local government status and ranking

Table 9.1 Summary of Implementation Steps
Source: Developed by author, based on findings

Until 2012, implementation of the new measurement system engendered great confusion at all levels (local, regional and national government). Stakeholders involved in the process of implementation lacked understanding on the system design of the new measurement system. Several factors have affected capacity to implement the new measurement system:

At the local government level

The capacity to implement the EKPPD varies across districts/municipalities. They do however have some problems in common, such as underdeveloped ICT systems and infrastructure, which caused difficulties in terms of obtaining the data necessary to complete the indicators. Availability of data is also affected by the frequent occurrence of informality practices and high staff turnover. In terms of the latter, there is a lack of a mechanism to hand over the responsibility and documents relating to a job when a member of staff is rotated to another position. Unavailability of data tended to result in a high reliance on estimated data, which in turn involves high levels of subjectivity as different approaches have been applied to estimate it. Some districts/municipalities used a rational approach or an approach with a strong basis, others did not. The choice of approach depended on the capacity of key appointment holders

in charge of data collection, and this in turn was influenced by the training and availability of technical guidelines or a system manual. The training received and the technical guidelines, however were perceived to be insufficient

The capacity for implementation was also influenced by the degree of support and involvement of elected leaders, which in turn significantly influenced the involvement of other stakeholders and the amount of budget allocated to support data collection. Budget allocation determined how many personnel were involved in the process of data collection, how much they could be paid and the type of facilities that could be afforded to support the activity. These factors in turn influenced the motivation of personnel to get the job done. Involvement of elected leaders varied across the districts/municipalities studied, from those who were actively involved to those who had no involvement at all. Implementation has been markedly better when elected leaders have been more involved.

The heavy influence of subjectivity was due to many of the indicators having been poorly designed and thus being open to interpretation. The way key appointment holders interpreted indicators was also influenced by their capability to do so. In short, inadequate capacity of local government to provide the necessary data and report the indicators has significantly affected the reliability and comparability of the data used to complete the indicators which were used as basis for the performance evaluation by the regional and national evaluation teams. At local government level therefore, at almost every stage of the implementation process there was potential for error, which was thus magnified.

At the regional government level

In its position as an autonomous region, the capacity of a province to report indicators under the new measurement system is dependent on the capacity of local government, and as local government has shown a lack of capacity to report, regional government is unlikely to be able

to report accurately, whatever its degree of capacity. This is addition to the adverse effect on regional government of the timeliness aspect of system design which, as explained above, has resulted in provinces not being able to report to deadline. Meanwhile, the capacity of regional government to evaluate local government performance varies, and has been affected by the commitment of governors as the representatives of the president in the regions. In province B for example, where the governor was aware of the new measurement system and indicated his commitment to supporting it, capacity to implement was better than in province C where the governor was unaware of the new system and did not become involved in its implementation. As with the involvement of the district head/mayor at local level, here the awareness and support of the governor influences the involvement of other stakeholders in the regional evaluation team; their involvement in turn influences the organisation of this team, which then affects the quality of the process and the result of the evaluation.

At the national government level

A very serious deficiency in capacity to implement the system was apparent at the national government level, due to the lack of stakeholder support (from ministries and government bodies). Of the six ministries and four government bodies supposed to be involved in EKPPD, only two elements (MoHA and the Financial and Development Supervisor Body) actively were. The direct implication of this was a lack of human resource to be engaged as evaluators. In addition, a lack of support from MoF incurred a direct implication in terms of the availability of budget to support implementation. With no specific budget allocated for the initiative, the new measurement system relied on a manual system which was unsuitable for processing the massive volume of data obtained from over 400 districts/municipalities and 33 provinces. In addition, lack of budget also affected the quality of evaluators, for whom limited training could be provided.

The inadequacy of evaluators in terms of quantity caused only limited data reported by local government to be verified (a maximum of five out of 34 functions delegated to local government). Meanwhile, the inadequacy of evaluators in terms of quality affected the quality of the evaluation. In other words, this capacity deficit has seriously affected the results of the evaluation in terms of:

- 1) Performance index of districts/municipalities and provinces;
- 2) Status of districts/municipalities and provinces;
- 3) Ranking of districts/municipalities and provinces, and
- 4) Type and quality of feedback provided.

Finally, inevitable errors also contributed to influence the reliability of the performance index.

9.2.5 Use

Weaknesses in system design and barriers to implementation have implications for the use of the new measurement system. The performance index compiled from measurement activity was unreliable, and thus meaningless in terms of mapping capacity building programmes for local government in Indonesia. The low reliability and narrowness of the index has also prevented the ultimate goal of the system to reorganise local government through the merger or abolition of low performing districts/municipalities. Moreover, the high political consequences if any such merger or abolition were to take place formed another reason that the results of the performance index have been used merely to ‘celebrate’ Indonesia’s annual regional autonomy day.

From a local government perspective, it has been difficult to include KPIs able to inform the local policymaking processes because of the strong role of elected leaders in shaping and directing local policies. For them, their achievement of their stated vision and mission has been

key at local government level. The local mid-term plan (covering a five year period) represented the intended transformation of this vision and mission; the work plan of local government (a one-year programme) was derived from the local mid-term plan. Then, the budget plan was prepared based on the local government work plan. The influence of the elected leader's vision and mission statement in shaping programme priorities undertaken at local government level is strong, representing as it does a political contract between the elected leader and the local parliament. The elected leader is held accountable to the local parliament in terms of the extent to which his/her vision and mission has been achieved. The presence of these factors means that little else was able to influence change in the five-year programmes.

Besides there being no evidence of use of the indicators at either local or national government level, this study has also found some distorted behaviours on the part of stakeholders. For example, to meet the report submission deadline, local and regional government submitted the narrative part of the LPPD report only, without including the KPIs (these were supplied once local and regional government had managed to obtain more complete and valid data⁸⁶). It was difficult to ascribe blame to local and regional government for the deadline not having been met, as national government did receive the report. However, as the report was missing the KPI matrix, the performance evaluation could not start. Another form of distorted behaviour was demonstrated by some evaluators, who misused field visits to seek bribes in exchange for the allocation of high status and ranking to the districts/municipalities under his/her responsibility. Similarly, there was evidence of the municipality offering to host a major event in return for being granted high status and ranking. Here, the EKPPD was misused to gain popularity. Some regions have also asked a hired consultant from the Financial and Development Supervisory Body⁸⁷ to compile the performance report on their behalf. Three possible reasons for this are

⁸⁶ For example, after the audited financial data was released by the financial office

⁸⁷ The performance evaluation contained a high possibility for bias as the Financial and Development Supervisory Body played a double role as consultant and evaluator of the performance report of the same district/municipality.

(i) a lack of capacity to report, (ii) the desire to obtain a high score, and (iii) a combination of both.

To sum up, this study demonstrates an inconsistency between the various stages and among the different elements involved in the EKPPD. The implementation stage did not fully follow the system design, and use did not follow the intentions set by the designers (see Table 9.2). Capacity to implement the system is much lower than the level of sophistication of its design. The ultimate intended use of the EKPPD, which has the potential of incurring highly political consequences, is disproportionate to the incentive provided (that is, there is a disconnection between the measurement system and its resource allocation).

No.	Inconsistency	System design	Practice	Comments
1.	Local self-assessment	<ul style="list-style-type: none"> Local government should form a self-assessment team; the team should conduct a similar assessment process at local level before KPIs of local government as a whole are reported to regional government The team should be chaired by the general secretary The team can determine status and ranking of local government organisations 	<ul style="list-style-type: none"> Local government was not aware of this requirement. There was no self-assessment team formed at local government level Activities to collect data for the KPIs were treated as an additional task of the local team assigned to produce the LPPD report Collecting KPI data did not have its own allocation in the local budget; it thus had to share a budget allocated for the 'LPPD reporting' activity 	This reflected low awareness of stakeholders and support at local government towards the system
2.	KPIs for optional functions	Local government can formulate KPIs for optional functions	<ul style="list-style-type: none"> Local government was unaware of this possibility. Local government has not yet developed additional KPIs for optional functions 	This was because of lack of training
3.	Regional evaluation	Regional evaluation is supposed to conduct a complete evaluation, from inputting performance data to assigning a score and announcing local government ranking regionally	Scoring and ranking only take place at the national evaluation	This was because results of regional evaluation were sometimes inconsistent with results of the national evaluation, triggering protest from districts/municipalities whose position was lower according to the national evaluation than in the regional evaluation
4.	Timeliness	<ul style="list-style-type: none"> Performance evaluation should start by April every year Result is announced within one year 	<ul style="list-style-type: none"> Performance evaluation only could start after June Result is announced within 2 years 	
5.	Regional evaluation team	Governor forms a regional evaluation team consisting of at least three elements: government bureau at the governor office; regional inspectorate; regional Financial and Development Supervisory Body	<ul style="list-style-type: none"> Not all governors were aware of the system Regional evaluation team varied across provinces (some included the three elements but others only one or two elements) 	Lack of stakeholder support at regional level
6.	National evaluation team	The national evaluation team consists of six ministries and four government bodies	Only two elements are actively involved: MoHA as secretariat and Financial and Development Supervisory Body in charge of technical evaluation	<ul style="list-style-type: none"> Reflects a lack of support from other ministries and government bodies Reflects conflict of interest Active involvement of Financial and Development Supervisory Body included the organisation's own interest (for the sake of its own existence which has long been questioned, and to utilise the internal budget)
7.	Field visit	The regulations do not stipulate that field visits are conducted only for those nominated as top 10 performers (local government) and top 3 (for provinces)	Field visits limited to those districts/municipalities nominated as 10 top performers and provinces as in the top 3	This is the effect of lack of financial capacity
8.	Ranking	National government should announce the 10 best performers and 10 worst (local government), and three best performers and three worst (provinces).	Government only announced 10 best performers (local government) and 3 best performers (provinces)	Announcing 10 worst performers (local government) and three worst ones (provinces) was considered likely to trigger protests from local and regional government

Table 9.2 Inconsistencies of design and implementation

Source: Developed by author, based on findings

9.2.6 Contingencies

Table 9.3 presents a synthesis of factors which influence the different stages of performance measurement systems in the context of developing economies.

Factors	Phases influenced		
	Design	Implementation	Use
Technical Factors			
ICT capacity/data availability		x	
Supporting systems for performance measurement	x	x	
Metric difficulties:			
• Measurement of cost			
• Reliability of output measures			x
• Causal relationships between inputs and outputs	x		
• Comparability of output measures			x
• Comprehensiveness vs. concision in reporting	x		
• Controllability of performance		x	x
• Unclear prescription on how to use measures			
Organisational Factors			
Internal stakeholder support	x	x	x
Financial resources	x	x	
Human resources	x	x	
Decision-making authority		x	x
Size	x		
Location of performance measurement systems		x	
Type of local government	x	x	
Institutional Factors			
Regulatory requirements	x	x	x
External stakeholder support	x	x	
Local democratic system (i.e. direct elections)	x	x	x
Cultures		x	
Corruption		x	x
Informal practices		x	x
System design			
a. Functional-based measurement system		x	
b. Timeliness		x	x
c. KPIs		x	x
d. Flawed in scoring rules			x
e. Incentive scheme (disconnection to resources allocation)		x	x
f. Absence of procedure to adjust performance			x
Drivers	x	x	x

Table 9.3 Summary of Contingencies in Different Phases
Source: Developed by author, based on empirical result of the study

As expected, the design, implementation and use of the new performance measurement systems applied in Indonesia were influenced by factors that can be classified into three broad categories: technical, organisational and institutional factors. Most of the findings support the conceptual framework, with a slightly different dynamic compared to the prediction for some factors and some new findings emerged. The logical link between different factors is shown in Figure 9.1 below.

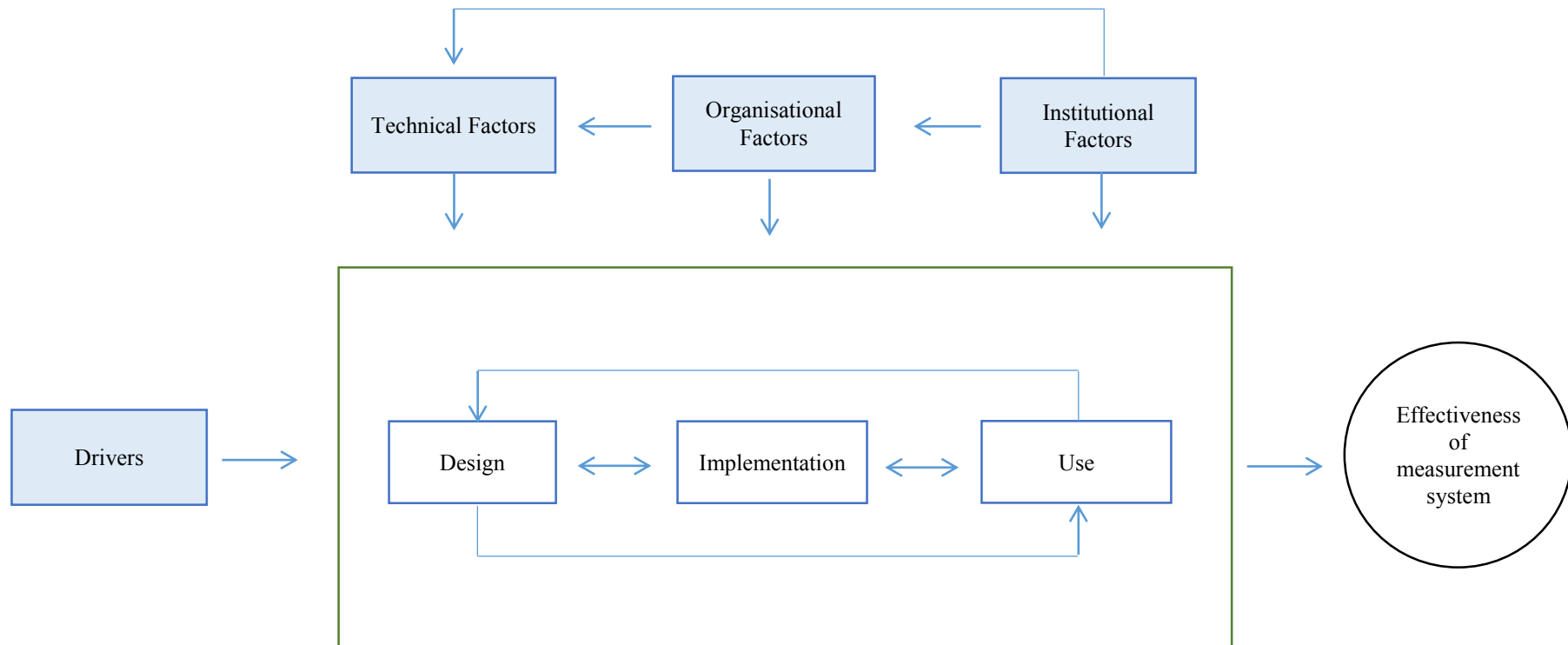


Figure 9.1 Factors Influencing Main Phases of Performance Measurement Systems in Developing Economies
Source: Developed by author, based on findings

Drivers

As can be seen from Figure 9.1, the first element of the framework is the ‘drivers’ of performance measurement systems. The driving forces for developing new performance measurement systems can be explained through institutional isomorphism. As discussed in chapter 2, Di Maggio and Powel (1983) differentiate three mechanisms of isomorphism: coercive, normative and mimetic isomorphism.

As indicated in the previous discussion (see chapter 6), the development of the new measurement system was to follow up the mandate of Article 6 of the new law on decentralisation (Law 32/2004). Adoption of performance measurement systems because of regulatory requirements represents a form of ‘coercive’ isomorphism. Then, the previous discussion in this section (see also section 6.2.2) indicated the presence of another type of isomorphism mechanism that worked in the case of the new performance measurement system applied in Indonesia that was related to pressures exerted by the international donor agencies, the World Bank in particular, through ‘normative’ isomorphism.

The reason for considering the pressure exerted by the World Bank in the case of the Indonesian measurement system as normative isomorphism relates to the discussion about demand-generating activities conducted by the World Bank to sensitise internal demand for performance measurement in the developing economies, as discussed in chapter 3 (see section 3.3). The finding of this study showed that some forms of demand-generating activities were undertaken by the World Bank to persuade MoHA, as the ministry in charge of coordinating local government, to develop a new and comprehensive performance measurement system to track the results of the decentralisation policy. The demand-generating activities were manifested in the arrangement of a two-day workshop in 2005 in cooperation with MoHA, bringing in expertise on decentralisation and local government as mentioned earlier (see also

discussion in section 6.2.2). Normative isomorphism relates to pressure coming from education and training (DiMaggio and Powel, 1983).

Apart from being mandated by the law, which supports the institutional arguments, the adoption of the new performance measurement system in Indonesia still had some rational explanations (related to internal motifs). The rational explanations connect to the background of the replacement of Law 1999 with the new Law 32/2004 on decentralisation (see discussion in chapter 5). The point was that the decentralisation policy brought about some negative implications (e.g. the spread of corrupt practices to the local level). The implication of this was that the substance of the budget allocation sent to the local level might not be effective to improve the quantity and quality of public service delivery to local people. This was one reason why there was a mandate in the new law on decentralisation to merge or abolish regions incapable of running regional autonomy (i.e. decentralisation) (see the discussion in section 6.2.1).

This explanation is consistent with the argument of the principal-agency perspective. It is true that the complex accountability relationships in public sector organisations, especially in the context of decentralisation, cannot be sufficiently explained using agency theory, as Smith (1990) points out, but the theory is still useful in explaining this case. More clearly, in the context of Indonesia, it is true that regions (i.e. districts/municipalities) have been given so called ‘wide-regional’ autonomy, which in essence has been similar to a federal country, as discussed in chapter 5. However, Indonesia is a unity country, which implies that the ultimate responsibility for ensuring the welfare of all Indonesian citizens is actually still in the hands of the President, as one of the key informants (INF6/NG) underlined during the investigation at the national level. Although the district heads or mayors are directly elected by the local electorate, there is still a line of accountability between them and the president, as reflected in

Figure 6.2. As the president has delegated functions to deliver public services delivery (35 functions) to local government level, it is rational for the national government (or more specifically the president) to take an interest in knowing how well the task and responsibilities are being exercised.

Thus, in terms of internal motifs, there were elements of political reasons (i.e. recentralising power) and rational explanations which can be explained through agency theory. Therefore, the answer to RQ1 can be explained through both institutional arguments (i.e. New Institutional Sociology) and rational explanations (i.e. agency theory). The institutional arguments, however, were more dominant, with the presence of another form of isomorphism (i.e. normative isomorphism exerted by the international donor agencies). This finding supports Modell's (2009) argument about the need to supplement institutional approaches in researching the adoption of performance measurement systems rather than making a direct assumption that their adoption is nothing to do with the efficiency and effectiveness arguments but merely seeking for legitimacy, for example.

Design

Differently from what was expected, ICT capacity/data availability did not influence the development of the KPIs of the EKPPD. In other words, there was no consideration about the availability of data while developing the KPIs. The discussion in chapter 2 indicates that the capacity of ICT, or more specifically the capacity of the cost accounting system to provide data, affected the development of efficiency measures (Ammons and Rivenbark, 2008; Montesinos and Brusca, 2011). As described in chapter 6, initially, the focus was on searching for measures that could capture the outcomes of the decentralisation policy in each sector (e.g. education, health, etc.) As mentioned and discussed in the findings chapter, the adoption of minimum service standards stemmed from the argument that with greater autonomy, local

government should be able to provide all types of basic services to local people, at least at the minimum level. As INF 2/NG said “if they [local government] cannot provide services even at the minimum level, what is the decentralisation for?” This view reflected consistency with economic theory

Due to the conflict of interest between different stakeholders,⁸⁸ however, the selection of indicators was compromised to accommodate these different interests. For example, in considering a factor such as ‘local democratic system’ – which relates to the interests of local elected leaders – the choice of indicators was changed from ‘outcome’ measures to ‘output’ measures which could be easily linked to the performance of specific elected leaders in a given period. Apart from the political considerations, the selection of outputs instead of outcomes indicators was also connected to the technical issue of causality: how can we reliably establish a relationship between inputs used during a specific period of a specific elected leader holding office with the outcomes seen in the future (see discussion in section 6.4.2). It was expected that the causality issue would influence design (see discussion in section 2.4.3). However, the possibility of linking causality to the local democratic system was not predicted, which makes this finding interesting and notably a new finding in the literature. The selection of KPIs was also influenced by the involvement of the international donor agencies. For example, the measurement framework developed by the World Bank, to some extent showed an influence on the KPIs adopted for the EKPPD (i.e. LGPM) (see Table 6.6). Further discussion about conflict of interests among different stakeholders will be provided in section 9.2.6).

The next form of measurement challenges that influenced design was the difficulty in balancing comprehensiveness and concision in reporting. Its influence was manifested in the decision to prioritise the development of KPIs related to obligatory functions at the expense of KPIs related

⁸⁸ This point will be discussed further in a separate point.

to optional functions, leaving the responsibility to develop KPIs for optional functions to local government. Given the lack of capacity of human resources at the local level, there was no progress in the development of measurement for optional functions.⁸⁹ This is a new finding in the literature. Prioritising the KPIs of obligatory functions contained two different considerations: a) the capacity of local government to report KPIs (rational consideration), b) the achievement of obligatory functions is an interest of the national government, whereas optional functions tend to be an interest of local government because the functions relate to the specificity of each region. This issue also relates to the point about conflict of interest discussed later.

As discussed in chapter 2, controllability of performance relates to the developing of procedures to adjust performance or to take into account the influence of uncontrollable factors. The case under study failed to include procedures to account for uncontrollable factors. This point has been mentioned earlier (see point 9.2.3). This finding is not surprising, as performance measurement system designers rarely go this far (Barnow and Henrich, 2010).

Among the eight elements of organisational factors that were expected to influence design, as discussed in chapters 2 and 3, only four were applicable to the case of the EKPPD: internal stakeholder support, financial resources, human resources, and to some extent decision-making authority. As the EKPPD involved a wide range of stakeholders at three different levels of government (local, regional and national, as described and discussed in chapter 7), and also involved international donor agencies, what is referred to as ‘internal’ stakeholders depends on what level is being examined. As the EKPPD was designed by the national government, with the support of international donor agencies, in this sense, internal stakeholders means the

⁸⁹ As indicated in chapter 7, local governments did not even know that they were allowed to develop measures for optional functions, and the assessment of local government performance in terms of optional functions still relied on a few KPIs developed by the national government for each function.

government at all levels, including parliaments and Indonesian citizens, and international donor agencies are treated as ‘external’ stakeholders.

The design process has been negatively affected by lack of support from internal stakeholders (i.e. sector ministries) in opposition to the considerably strong support from external stakeholders discussed earlier. The design process was very slow because sector ministries did not supply KPIs relevant for their sectors, which eventually led to formulation of a small team to deal with indicator selection to be applied for all sectors.⁹⁰ There were some issues here. First, the low involvement of sector ministries can be connected to unclear budget allocation for supporting performance measurement initiatives. The sector ministries’ concern was about who should pay any of their staff involved in the performance measurement initiative led by MoHA. Implicitly, sector ministries did want to pay for that, but MoHA should. On the other hand, the initiative did not get support from the MoF (manifested in their refusal to make a specific budget allocation for the initiative) (see discussion in section 6.4.3). This finding also suggested a conflict of interest among different ministries that will be analysed further later.

The lack of support from sector ministries showed a connection with another factor: decision-making authority). As a further consequence of the unclear financial resources to support the new performance measurement initiative, sector ministries tended to send representatives who did not have the capacity to make decisions on behalf of their ministries. This situation resulted in the decisions regarding KPIs to be adopted being difficult to make.⁹¹ Besides the issue of conflict of interest, the low involvement of sector ministries can also be associated with the

⁹⁰ As mentioned in chapter 6, this small team consisted of only two elements: MoHA and the Development and Financial Supervisory body.

⁹¹ As representatives of sector ministries attending meetings did not have the capacity to make decisions on behalf of their ministries, the agreement on KPIs to be adopted was very slow. The representatives had to report the results of the meeting to their ministry first.

technical issue (the difficulties in developing measures). Some ministries struggled themselves to define KPIs relevant to their sector. I discussed this issue in section 6.4.4.

Implementation

For implementation, the findings show consistency with the conceptual framework. The first important factor to influence implementation is ICT capacity/data availability. This finding is understandable, as ‘implementation’ deals with collecting, processing and compiling data to report the KPIs of the EKPPD. As discussed in chapter 7 (see section 7.3.1), the availability of data also relates to several other issues such as ‘cross-cutting departmental issues’ or attribution problems. Data to complete certain KPIs needs to be gathered from several different working units, for example, or specific data need to be broken down in order to get data which represent information about a specific function. The lack of staff devoted to performance reporting tasks and lack of technical knowledge increased this problem. Data collection was also difficult because support systems were incompatible with the design of the measurement system. For example, the budget system did not contain information about the sources of budgets at the activity level. When the budget system contained information about sources of budgets at the activity level, collecting data for certain KPIs was easier.

The municipalities studied that had better availability of financial resources (organisational factor) showed better implementation. Implementation in municipality 1 (province C), for example, seemed better than implementation in municipality 2 (in the same province), although they are relatively comparable municipalities in terms of size.⁹² Hence, with no staff devoted to handling reporting performance for the purpose of the new performance measurement system, collecting data, compiling them and completing KPIs was very difficult, as experienced by municipality y (province B). The condition was different in municipality x (province A),

⁹² I distinguished size of districts and municipalities involved in the study based on number of sub-districts owned.

where the presence of sufficient staff devoted to dealing with the reporting task showed better implementation.

The availability of staff devoted to dealing with reporting tasks in fact very much depended on the support of the elected leaders. In municipalities where the elected leaders showed full support, there was sufficient allocation of staff and budget (i.e. municipality x (province A) and municipality 1 (province C)). It was not only about the allocation of budget and staff to directly handle the reporting task but also about attention from the other elements of local government, depending on how the elected leaders responded to the EKPPD requirements. When there was no support from the elected leader and other elements, reporting tasks relied on few staff or junior managers. Thus, the influence of elected leaders was very strong.

The limited capacity of human resources to understand and interpret measures led them to report the wrong data. This eventually affected the validity and reliability of the data used by the regional government to report their performance. The lack of financial support also affected the availability of data. For example surveys to develop baseline data could not take place and led local government to report data based on predictions – which were very subjective. Data availability can even be affected by institutional factors such as informal practices. As described in chapter 7, it was a common practice to acquire assets outside of formal procurement procedures which affected the validity, reliability and completeness of data related to assets needed to complete the related KPIs. Put more clearly, asset registers did not reflect the real number and value of assets owned by local governments.

Size influenced implementation, but the influence corresponded to the internal stakeholder support. Although local government is quite big in terms of scale, with strong support from internal stakeholders, the local governments studied still managed the reporting activity better than smaller local governments without support from internal stakeholders. The best was small

local governments with full support from internal stakeholders. The worse was a large scale but no support from internal stakeholders. Small local governments with no support still managed their reporting activity, but large ones with no support struggled to meet the requirements. Thus, the reason why the influence of size corresponded to the support of elected leaders was because size is connected to the availability of staff devoted to reporting tasks. The bigger the size of districts/municipalities, the more difficult it was to collect and process the data, because a higher amount of data had to be collected and processed. As mentioned earlier, availability of staff also depended on support from the elected leaders.

The influence of decision-making authority in the implementation phase was also evident. As described and discussed in section 7.3.1, when there was involvement of senior officials of local government, it was easier to arrange meetings to discuss whether they agreed with the data to be used for completing KPIs. However, when the task was handled by junior level officials, arranging meetings with high officials was difficult, let alone deciding when they could submit the report. Although the report was ready, the report had to be consulted first in a meeting among senior officials, including the general secretary and sometimes the elected leaders.

As expected, the characteristics of local government (i.e. district or municipality) influenced implementation: implementation tended to be better in the municipalities than in the districts. This was because municipalities which represented urban areas tended to have more advanced development and infrastructures and higher quality human resources than districts which represented the rural type of local government.

Related to the factor ‘where performance measurement systems are located’, the findings supported the prediction with a slightly different dynamic. The existing literature suggests that performance measurement systems would be better handled by the finance office which deals

with budget task. The key informants in all local governments studied perceived that reporting would be better handled by the local planning and development body, as this body tends to have human resources that are accustomed to performance reporting tasks. In the context of Indonesian local government, the local planning and development body also plays a very significant role in the budgeting function. Thus, essentially, the finding was still consistent with the prediction. However, this study did not capture evidence as to whether implementation really would have been better if the reporting task was handled by the local planning and development body, as in all districts/municipalities studied, the reporting tasks were located within government departments under the local government secretariat.

The findings suggested that the presence of clear incentives is very important to determine the response of the internal stakeholders. The elected leaders and other internal stakeholders in local government will pay attention to this system if there are clear financial consequences for being a low or high performer. This finding suggests that local government tended to respond to financial incentives. This is because local government in Indonesia tended to be financially highly dependent on the national government. For the majority of local governments, the main source of revenues was from transfers in the form of general allocation grants, block grants or revenue sharing. Local income tended to be a relatively very small portion of the total local budget. This finding confirms economic theory, which suggests the importance of designing appropriate incentives systems when introducing performance measurement. However, the focus here is not incentives for individual managers, but incentives that will benefit organisations, in this case the local governments.

At the national level, the limited capacity of human resources acting as ‘evaluators’ caused an inability to notice the inappropriateness of the numbers reported by local governments. The limited availability of capable evaluators at the national level was very much related to the lack

of budget support for the initiative. Evaluation relied on in-house resources owned by the MohA alone and partly on the support of the Development and Financial Supervisory Body. Thus, the lack of internal support at the national government level (from other ministries) significantly affected the availability of financial support and human resources to support the system, which caused a very serious problem: it affected the ability of the national evaluation team to conduct a proper evaluation.

As described in section 7.3.2, the ability to report KPIs was also influenced by institutional factors: province performance reports should include all districts/municipalities within their jurisdictions, as the formation of a province is defined by law in terms of how many districts and municipalities are included in it. Provinces submitting their report but excluding districts/municipalities in an attempt to meet their deadline violated the law. This kind of difficulty has not yet been discussed in the literature. The existing literature does point out issues of overlapping and conflicting regulations as a barrier for Indonesian local government to implement performance measurement systems instead of strengthening their capacity (Rhodes et al., 2012). However, there has been no mention of this particular finding of this study.

Another factor that was not included in the framework before which was found as a common problem across all local government studies is the work culture related to the attachment of data to individual holdings or managing the data instead of it remaining in the administration system of organisations (see discussion in point 9.2.4 and 7.3.1). This culture significantly affected the availability of data needed for the KPIs.

Use

Use has been influenced by several factors: (i) regulatory framework, (ii) technical factors, (iii) and incentives. As discussed in chapter 8 (see section 8.3.1) the unfinished regulations on

capacity building programmes was a reason mentioned by key informants for why sector ministries did not use the results of the evaluations for the purpose of helping low performing local governments to improve their performance. This is also a new finding that has not yet been discussed in the literature, because there has been no regulatory framework to legitimise the programmes; if there is no regulation, sector ministries have no basis to allocate budget for the programmes.

As mentioned earlier, the ultimate purpose of the EKPPD development is as an instrument to merge and abolish low performing local governments in running the decentralisation policy. However, no single local government has been merged or abolished so far. It can be assumed that the information was not used because of the fear of the political consequences of merging and abolishing local governments, as one of the key informant at the national government level pointed out (INF 5/NG). However, this argument is only valid when a local government has received a 'low' score for three consecutive years. In fact, no single local government fell into this category, as seen in Tables 8.1 and 8.2.

It can be argued that fear of the high political consequences of action to merge or abolish local governments might have triggered the national evaluation team to avoid the possibility for that to happen, for example by deliberately making sure that no local governments were eligible for the EKPOD. However, this argument requires further investigation to prove it.

Therefore, one possible explanation for the non-use can be connected to the technical factors (i.e. validity and reliability of the EKPPD index). As discussed in chapter 8, performance scores achieved by local governments in the last six rounds of evaluations (2007 evaluation to 2012 evaluation) was influenced by two things: first local governments knowing better how to report led them to start 'gaming' the system; second, there was an influence from the scoring system, thus, the validity and reliability of the index was questionable. The implication is that the

problematic validity and reliability of the index meant that the next step of the evaluation (i.e. EKPOD) could not take place, therefore no local government could be merged/abolished.

The argument above is also supported by the discussion in chapter 7 which suggested that the entire process of reporting KPIs from the local level, reporting and evaluation at the regional level and evaluation at the national level indicated lack of rigour. The index produced clearly indicated low reliability and validity. If the processes of the evaluations had been rigorous, the evaluation results could have been different from those presented in Tables 8.1 and 8.2.

From the perspective of the local governments, they have a lack of incentives to use the results of evaluation because there are no concrete incentives such as financial incentives in the form of increased budget allocation when a local government moves from the category 'high' to 'very high' or from 'low' to 'medium' performance, for example. As mentioned earlier, local governments tend to respond to financial incentives. On the other hand, the EKPPD has no link to the resource allocation. As indicated in the discussion of section 8.3.4, there is an issue about the conflict of interest between MoHA and MoF in relation to the disconnection between the EKPPD and resource allocation.

Another form of conflict of interest was also a reason for the non-use of the information at the local level. This related to the discussion on the strong influence of elected leaders discussed in section 8.3.3. Local budgets are mostly derived from the visions and missions of the elected leaders. Achievement of these visions and missions is central for local government programme settings. Apart from the conflict of interest which can be understood through the lens of institutional perspectives, this issue also contains a rational explanation: some local governments did not find the measures or KPIs adopted in the EKPPD system relevant to them because of their specific circumstances. An example is the adoption of the minimum service standard: for advanced local governments, the measures have no use, as they have passed the

stage of achieving the minimum service standard, but for others even the minimum service standards were too advanced for them if they were still struggling with the very basic infrastructures. This is consistent with the argument of contingency-based approaches: the design should fit with the context.

9.2.7 Interrelations between Technical, Organisational and Institutional Factors

As reflected in the discussion above, there were complex interactions among the different factors:

Technical and organisational factors

Organisational factors (e.g. low quality of human resources) intensified problems of reliability and comparability of measures (technical factors-metric difficulties). This was possible as evidenced in this study; due to their limited capacity to understand and interpret the guidelines, staff at local level can use very different types of data to complete KPIs compared to those actually mentioned in the guidelines. For example, they could not differentiate between those KPIs which require budgeted figure and those which need realisation figures. Staff reported KPIs using data in the form of 'monetary,' instead of 'quantity'. Then, lack of internal stakeholder support caused lack of resources to support the initiative. Lack of resources made proper implementation difficult, which eventually affected the reliability of the measures (i.e. composite measure – the EKPPD index) produced from the measurement system.

Technical and institutional factors

Measurement challenges and local democratic system

The political environment of the Indonesian local government, where the new measurement system was being applied, can intensify technical problems such as metric difficulties – more specifically causality issues or attribution problems. This was discussed, for example, in section

6.4.2. The direct election system as part of the local democratic system applied in Indonesia has complicated causality issues or performance attributions. The reason why the issue of performance attribution became crucial and sensitive for the elected leaders was because the elected leaders can directly use their performance as campaign material for the next round of elections, or if they decide to participate in elections at a higher level of government for example (i.e. governor position).

Thus, the performance attribution problem caused the change in the design of the new measurement system in terms of the type of indicators to be developed – from outcomes indicators as the national government originally wanted to outputs indicators – to compromise with the interest of local elected leaders and also to solve the causality issues, in terms of the difficulties selecting and defining meaningful measures which finally caused the designers of the performance measurement system to opt for indicators that are easy to measure. However, the attribution of performance with a specific link to the direct election system is a new finding in the literature. This finding support Mimba et al.'s (2013) argument about the powerful position of the elected leader under the direct election system and also expands their study.

Mimba et al. (2013) demonstrate how managers of local agencies within local government adapt the development of performance measures to accommodate the interest of the elected leaders (i.e. managers define measures which are in the interests of the elected leaders instead of the interests of other stakeholders such as the national government or local parliament). In this study, despite the measures were developed by the national government, still the interests of the elected leaders could influence the types of measures developed. Further expansion was achieved by the current study by showing how this direct election link to technical factors not only influences the types of indicator to be adopted but also causes the measurement system to be split into two: annual and conditional.

From the existing literature, we understood that unavailability of data can affect design, implementation and use. The cultures and common practices applied in the context of Indonesian local governments such as high practices of informality, in fact, also contributed to the unavailability of data. For example, as discussed in chapter 7, sometimes unregistered assets were associated with informal practices (i.e. assets were acquired not through a formal procurement process but by using other items of the local budget such as the budget for meals and stationery). When every sub-division, division, department, and working unit within a district/municipality uses this practice, the accumulation of unregistered assets can be quite significant. Moreover, assets have been removed in different ways than through formal procedures of asset depletion. When districts/municipalities reported KPIs related to assets for the purpose of the EKPPD, the validity of the KPIs was obviously questionable. Informality did not stop local governments from reporting KPIs but did distort the numbers reported. High practices of informality (e.g. application of two versions of budgets) negatively influenced the reliability and validity of data used by local government to report KPIs, which eventually caused the reliability and validity of the EKPPD index obtained by each local government to be questionable.

Technical, organisational and institutional factors

Under decentralisation and the direct election system (i.e. institutional factor), staff rotation tended to be high. On the other hand, there was a lack of mechanisms to hand over tasks and responsibility between officials rotated (organisational culture). As a consequence, data tended to be attached to individuals holding or managing the data instead of remaining in the organisational database (i.e. work system and culture). This situation significantly affected the availability of data (technical factor) (see discussion in section 7.3). This kind of situation will

not be found in organisations with a better organisational culture and database management system, such as in the developed economies. In the context of the developing economies, and Indonesia specifically, staff rotation was a major issue for the availability of data. This is a new finding that has not been discussed in prior studies focusing on the Indonesian context (i.e. Akbar et al., 2012 and Mimba et al., 2013).

9.2.8 Interrelations between Design, Implementation and Use

As implied in Figure 9.1, the technical, organisational and institutional factors are interrelated.

Design, implementation and use were interrelated. It was evident that the poorly designed KPIs caused problems for the implementation phase (i.e. staff responsible for collecting data and reporting KPIs at local level struggled to identify and to decide which or what type of data to be used to complete the KPIs). The mismatch of timeliness for submitting the performance report caused the unavailability of data required to complete KPIs. The low reliability and validity of KPIs reported which were used to form the composite measures of the EKPPD (i.e. implementation phase) seemed to be one of reasons why the results of the EKPPD have not been used (see the previous discussion about ‘use’). Another obvious example that relates to the lack of rationality of timeliness was making the deadline for reporting the performance for provinces the same as that for local governments, whereas data for provinces should be compiled from local government reports; the deadline was just not feasible.

Moreover, the inconsistent system design of the measurement system, with the organisational structure of districts and municipalities observed, caused great confusion for staff handling the

reporting task at the local level.⁹³ The problem worsened with the lack of training⁹⁴ and low capacity of human resources at local level to interpret the limited technical guidelines available. Thus, designing of performance measurement systems without a sufficient understanding of the environment where the measurement system was to be applied created implementation problems. The measurement system was not equipped with procedures to account for uncontrollable factors. Thus, the indexes produced were non-comparable.

Figure 9.1 shows similarity with conceptual framework of performance management proposed by Van Helden and Reichard (2013). Thus, this study empirically supports the framework developed by Van Helden and Reichard (2013). The difference is their framework assumes that the objectives and strategies of a public sector organization are important drivers of a performance management system. The drivers of performance measurement system in the context of developing economies, however, has been driven more by political reasons and the motivations of international donor agencies. Thus, drivers are distinguished into two types: internal and external drivers.

9.2.9 Conflicts of Interest among Different Stakeholders

Conflicts of interest among different stakeholders is necessarily complex and it is quite difficult to reflect it in the performance measurement systems stages framework above. The conflicts of interest demonstrated in the case under study included the following.

First, the conflict of interest between the government and the World Bank as the first international donor agency providing strong support for the government of Indonesia to

⁹³ KPIs should be reported according to functions, which was inconsistent with organisational structure of districts/municipalities. This created the cross-cutting departmental problem.

⁹⁴ Both training provided for staff at local level who were directly in charge of handling reporting performance for the purpose of the EKPDD and training for the members of the national team responsible for guiding local government on how to report performance according to this new system.

develop a new and comprehensive performance measurement system to assess the results of the decentralisation policy. The World Bank insisted that the measurement framework they developed was adopted as the new measurement system, but the internal stakeholders also had their own views regarding the conceptual framework of the performance measurement system to be developed. As discussed in section 6.4, according to the internal stakeholders, the conceptual framework of the new performance measurement system should be derived from the objective of the decentralisation policy itself. On the other hand, the measurement framework developed by the World Bank, LGPM (see Figure 6.3) was built on four pillars: (i) public financial management, (ii) fiscal performance, (iii) service delivery, and (iv) investment climate. My analysis was that the indicators adopted in the LGPM seemed to be derived from the World Bank governance indicators (see discussion in section 3.4.2). The discussion in section 3.4.2 suggested that the concept of ‘good governance’ defined by the World Bank aims to support their neoliberal agenda. As mentioned in section 9.1.1 (see also chapter 5), decentralisation in Indonesia has brought many negative implications, including local government becoming an active economic actor, which is inconsistent with neoliberal principles, as discussed in section 3.4.1. These explanations provide an answer for the interests of the World Bank behind the support of the development of the new performance measurement system in Indonesia: to secure neoliberal policies in Indonesia, and this addresses part of RQ1.

Second, the conflict of interest between MoHA and sector ministries, as explained earlier. Sector ministries have an interest in maintaining their own direct power and influence over local government. Under the decentralisation system, all local government affairs should actually be under the coordination of MoHA, but this implies greater power for MoHA while sector ministries lose their power and influence over local government. Supporting the EKPPD

means acknowledging the superiority of MoHA over other sector ministries, which the sector ministries did not want to do (see discussion in section 6.4.3).

Finally, there was a conflict of interest between the national and local governments. The interest of the national government is to recentralise power, whereas the interest of local governments is to maintain their authority. The national government wants to ensure uniformity in programme priorities to support the national government agenda, but local governments want to pursue their local agendas, which do not necessarily align with the national policies. For example, the national government policy is to ensure all citizens get access to the minimum service standards, but local governments may have other priorities. The national government wants to prioritise the achievement of obligatory functions, but local governments may want to direct resources to support programmes that fall under optional functions.⁹⁵

The national government is interested in assessing the ‘outcomes’ of the decentralisation policy. However, this conflicts with the interest of elected leaders who are interested in showing the ‘outputs’ of their work on their annual programmes, which can be easily counted and attributed to their performance. This conflict of interest had an impact on the selection of indicators, and the other factor connected with this issue is the causality or performance attribution problem.

Looking from the perspective of the national government, the conflict of interest between the MoHA and sector ministries led to the symbolic use of the evaluation: to celebrate regional autonomy every 25th April (i.e. announce the rankings of local governments and give certificates to the mayors/districts heads). The functional use could not be carried out because resource allocation to local governments is still managed by the MoF, which has continued to

⁹⁵ For some regions, due to their specificity, directing resources to develop areas that fall into the category ‘optional functions’ might be a better development strategy.

use a different formula to distribute funding to local governments. Considering the local government perspective, the conflict of interest resulted in the reporting of the EKPPD being limited to a routine activity without the information being used to inform local policy-making processes. This finding demonstrates empirical evidence for the conceptual framework established by Tillema et al. (2010) to analyse the influence of stakeholders' interests on the use of performance information (see Figure 3.2). It is clear that there was symbolic use (i.e. to celebrate autonomy day) and proactively decoupling performance information done by local government.

9.3 Academic Contributions and Practical Implications

9.3.1 Academic Contributions

Theoretical contributions

First, this study contributes theoretically to the development of the literature on public sector performance measurement systems research in the context of developing economies, by drawing insights from both the functional and institutional approaches to researching public sector performance measurement systems. In addition, this study also borrows insights from theory in another field (i.e. political economy theory). The previous two studies focusing on the Indonesian context (i.e. Akbar et al., 2012 and Mimba et al., 2013) rely on institutional theory (i.e. Neo-Institutional Sociology). Employing both perspectives, this study is able to demonstrate the complex and non-linear interactive effects of three classifications of factors, technical, organisational and institutional, on the design, implementation and use of performance measurement systems in the developing economies.

Second, this study shows the situation in which the phase of 'implementation' can be clearly distinguished from those of 'design' and 'use.' As discussed in chapter 2, one difficulty with

the literature on performance measurement is its inconsistent use of the term ‘implementation.’ Some scholars define this as ‘design’ (e.g. Cavaluzzo and Itter, 2004); others define it as ‘use’ (e.g. De Lancer Julner and Hozler, 2001). Exploring what can be included in the implementation stage was the call of Van Helden et al. (2012). This study demonstrates how the term ‘implementation’ can involve substantive steps which differ from those undertaken at the ‘design’ and ‘use’ stages of performance measurement. A clear differentiation between the design and use phases was possible in this study because the measurement system examined involves very complex processes; different steps are undertaken at different levels of government (national, regional and local), and at each level many different activities are required. Thus, many steps are taken before the final performance index produced and can be used (for example, determining the status and ranking of local government, designing capacity building programmes, assisting with decision-making in relation to the merging/abolition of low performing districts/municipalities).

Steps such as data collection undertaken at the local government level and data analysis carried out by the regional and national governments, up to the production of the EPPD Index, cannot be regarded merely as intermediary phases, given the substantive efforts and resources required to carry them out. This study thus contributes to a demonstration of the characteristics of a performance measurement system, whereby we can clearly distinguish between design, implementation and use.

The study bridges three main streams of literature on public sector performance measurement: accounting, public administration and public management literature. The lack of communication among scholars working in different disciplines is one reason for the gap in performance measurement literature highlighted in Van Helden et al. (2008; 2012). Hence, I have tried to bridge two different angles of literatures (developed and developing economies),

as I believe that both contexts share similar core technical and organisational factors. By doing so, this study has been able to demonstrate how institutional factors (that is, the specific characteristics) of developing economies influence the core technical and organisational factors of performance measurement. In addition, this study contributes by bringing literature from different fields (development, political economy and local government) into the performance measurement literature discussion. The purpose has been to explore the history of the concept of performance measurement in the context of developing economies. Taking insight from these fields has also helped to explain the interests of international donor agencies in relation to performance measurement in developing economies.

Empirical Contributions

First this study demonstrates different forms of institutional isomorphism in relation to the design, implementation and use of performance measurement systems in the context of developing economies, which were manifested in:

1) Coercive isomorphism:

- MoHA developing the new measurement system because it was mandated by the law (Law 32/2004) (apart from the normative isomorphism from international donor agencies)
- National government imposing the new performance measurement systems on local governments through regulation.

2) Normative isomorphism:

International donor agencies persuading MoHA as the leading ministry to manage regional autonomy functions (i.e. decentralisation) through workshops, seminars, training and provision of local and foreign consultants. Local consultants and senior officials at MoHA dealing with the development received their education in the West

(e.g. the US and UK). Their education experience in the West influenced their way of thinking and they took ideas applied in the West such as performance measurement.

3) Mimetic isomorphism:

- Development team searching for measurement methodologies applied in other countries (i.e. Canada)
- Local government copying other local governments that were ranked better in the evaluation on how to make the performance report for the EKPPD due to lack of technical guidelines and trainings

Thus, this study provides empirical evidence of different ranges of the institutional isomorphism formulated by DiMaggio and Powel (1983). Consistent with their suggestion, I found that the three types of isomorphism can be present and show influence at the same time. This study expands the previous study (Akbar et al., 2012) that demonstrates mimetic behaviour at the local government level only; local government tried to imitate best practices of performance measurement systems from other local government. They specify that local governments from outside Java tend to copy practices from local government inside Java that they consider to be much more advanced.

This study provides empirical evidence for the influence of informal practices and corruption (supply side) on performance measurement systems, which expands the findings of Mimba et al. (2013) which do not capture evidence of these influences, as they acknowledge themselves. Next, this study provides empirical evidence for some forms of measurement challenges that have never been examined in the context of developing economies, such as causality issues, and comparability of measures. This study also provides empirical evidence for how complex, non-linear interactive effects of technical, organisational and institutional factors, which can

be considered as a part of my original contribution as no existing study focusing on the developing economies has done this.

Another original contribution of this study relates to the documentation of how performance measurement initiatives were disseminated in the context of developing economies. These initiatives can be distinguished into three main periods, as summarised in Table 9.4 below.

Period	Event	Characteristic of Performance Measurement Introduced
1980s	Rise of interest among international donor agencies in promoting performance measurement to developing economies (recipient countries)	Performance measurement at the level of projects funded by international donor agencies
1990s	Renewed interest of international donor agencies in accelerating performance measurement in developing economies (recipient countries)	Establishing synergy between the national performance measurement system of the recipient countries and international donor agencies' performance measurement systems
2000s	Transformation of performance measurement in developing economies	Reliance on the tracking of MDG targets and poverty reduction programmes alongside the national performance measurement systems

Table 9.4 Periods of performance measurement initiatives in developing economies

Source: Developed by author, based on the findings of the study

The root of performance measurement in developing economies has a close relationship with development discourse. More specifically, it relates to the needs of international donor agencies such as the World Bank to ensure the effectiveness of development aid directed to developing economies. Thus the early engagement of developing economies (recipient countries) in linking inputs to outputs was connected to the projects funded through development aid. The requirement to measure the performance of projects funded by international donor agencies was expected to strengthen the performance measurement systems of the respective agencies. International donor agencies started to show an interest in performance measurement because

of their need to demonstrate accountability for the development aid spent in developing economies by donor countries. This became imperative as the scarcity of development aid increased. This requirement of developing economies to collect data on the performance of projects funded through development aid started in the 1980s.

In the 1990s, it was realised that establishing performance measurement capacity in developing economies was as important as building the capacity of international development agencies in performance measurement. During this period, the World Bank formulated its ECD, which contained strategies to accelerate performance measurement in the context of developing economies. These strategies included:

- (i) How to generate internal demand for performance measurement in developing economies;
- (ii) How to transfer the skills needed to embrace performance measurement in developing economies;
- (iii) How to ensure performance measurement is put in place in developing economies, and
- (iv) How to ensure performance measurement is utilised by developing economies.

This study has demonstrated how these strategies work in the case of the new performance system applied in Indonesia to assess local government performance in the context of decentralisation.

Finally, in the 2000s international donor agencies launched the transformation of performance measurement in developing economies, building synergy between performance measurement in these economies and performance measurement of international donor agencies, in an attempt to engender a sense of reliance on the national performance measurement system on the part of developing economies. This transformation related to a change in principles

regarding how development aid should be managed, which included an increased sense of ownership on the part of developing economies to manage the development aid they received and integrate funding into the national budget. As a result, accountability as regards funding became included in the national budget cycle.

This study also shows that performance measurement in the context of developing economies can be assessed through the notion of neoliberalism. By doing so, it helps us to understand the possible interest that international donor agencies have in promoting performance measurement in developing economies. Neoliberalism has been shown to be the paradigm which international donor agencies such as the World Bank and International Monetary Fund first adopted when supporting developing economies. In the 1990s this then shifted to the concept of good governance. However, good governance and neoliberalism are not unrelated concepts. Good government can actually secure the neoliberalist agenda. Thus, when the World Bank changed its development paradigm to one of good governance, the underlying paradigm did not change. As discussed in Chapter 3, even after the 2007/8 financial crisis, neoliberalism is still the development paradigm used by the World Bank; it is merely a different phase of neoliberalism.

The contribution of this study in terms of the three major themes found in the stages of performance measurement (design, implementation, use) is outlined below. Firstly, this study expands the existing literature which focuses on performance measurement in the context of developing economies (Mimba et al. 2007) by demonstrating how public sector reforms can influence performance measurement in different ways. Mimba et al. (2007) have suggested that ‘decentralisation’ and ‘direct election’ reforms can lead to increased demand for performance information, as elected leaders can use performance measurement to communicate results to local voters. In this sense, the connection between reform and performance measurement is

positive. However, this study also finds that performance measurement is aimed at reversing decentralisation (providing recentralisation) through re-exerting control over the authority of local policymakers (that is, elected leaders), and in this sense the connection is negative. Moreover, the finding of this study that political reasons dominate the initiation of a performance measurement system contributes to a response to Van Helden et al. (2012) who suggest exploring the political rationale behind the design of a performance measurement system.

This study demonstrates how the characteristics of the institutional context of developing economies identified in Mimba et al. (2007) (such as the high incidence of informality) magnify the challenges of performance measurement as identified by Jones and Pendlebury (2010, chapter 2). The influence of informality is felt, for example, in the difficulties in obtaining reliable data; the resultant use of unreliable data to report performance means that the measure of performance was similarly unreliable. Performance evaluation based on unreliable data is meaningless.

Both developed and developing economies share core factors (technical and organisational) which influence performance measurement. The characteristics specific to developing economies (that is, institutional factors) however, magnify the challenges of performance measurement in these economies. This study has demonstrated how some institutional factors have affected technical and organisational factors, which in turn have increased the challenges of measuring performance in Indonesia.

Reliability of output measures has been a challenge for performance measurement even in developed economies, as discussed in Jones and Pendlebury (2010, chapter 2). However, the serious deficiency in capacity (technical and organisational) in developing economies increases this issue. In this study, availability of data was more inconsistent, a situation made worse by an unsupportive work culture and systems (resulting in, among others, high staff turnover and

a high incidence of informality). High staff turnover made it hard to obtain data (even when it was available) as this tended to be attached to an individual and moved with them. In addition, informal practice implied that the recorded data did not necessarily reflect the actual situation being reported upon.

Similarly, causality establishment is still an essential problem of measuring performance in developed economies. This relates to the nature of outputs/outcomes of a public sector organisation and is a cross-cutting departmental problem, making it difficult to attribute performance to a specific department or organisation. No doubt this is a problem also encountered in developing economies. A particular reform, however, the direct election of district heads/mayors, increased the issues of causality. In this sense, performance is thus not only difficult to attribute to an organisation/department but also to a specific, elected leader. Interestingly (but perhaps not surprisingly), elected leaders were concerned with the issue of causality because it related to attribution of the performance of a district/municipality to his/her name. The elected leader preferred a performance measurement system which could communicate their achievement during their term of office, rather than one which rewards the next elected leader as a result of the performance of the current leader, or a system which punishes him because of the performance of the previous elected leaders. It has been seen, therefore, that the direct election of the district head/mayor influenced performance measurement in terms of the choice of indicators. Output indicators were preferred over outcome indicators by elected leaders. On the other hand, national government was interested in outcomes of its policy (that is, decentralisation). This finding demonstrates how a conflict of interests among stakeholders has influenced the choice of indicators.

In developing economies, the challenge in terms of narrowness of output measures becomes bigger as the development gap across regions tends to be larger than that among regions. With the absence of a mechanism to adjust performance, comparability of performance indicators is

considerably low. For comprehensiveness versus concision in reporting and controllability of performance, developing economies are likely to share equivalent challenges. However, although cost measurement is still a challenge for developed economies, developing economies still have long way to go to reach the stage where an accrual accounting system can be fully implemented.

In terms of comprehensiveness versus concision in reporting, the literature suggests that the designers of a performance measurement system face a trade-off between balancing the tendency to create a large number of performance indicators (to ensure that they capture the overall performance of the object being measured) and the consideration of using simple measures which are easy to understand by non-specialists. The specific issue faced by designers in the case of the new performance measurement system in Indonesia was the desire to emphasise obligatory functions (which was the interest of national government) balanced with a need to emphasise the priority of local government (which often fell into the category of optional functions). As national government placed greater emphasis on obligatory functions, many of these KPIs have been developed to measure these, and very few (only one or two) for each optional function. At the same time, some districts/municipalities have achieved a great performance in terms of optional functions, and this in the long term will contribute to the improvement of obligatory functions. The government developed very few KPIs for optional functions, partly because the burden on local government to collect data would be heavier, and partly because of the difficulties in formulating the measures. However, for local government, the existence of only a few KPIs to measure optional functions means that this aspect of its performance is not fully captured.

Next, this study contributes to an improvement of our understanding of the state of performance measurement system operating in developing economies. In specific relation to the ‘design’ theme, this study also contributes to the literature by:

- 1) Providing a systematic discussion of the impact of various types of contingencies on the design stage of a performance measurement system in the context of developing economies;
- 2) Giving attention to the methodological limitations of a performance management system.

These two points are highlighted in Van Helden et al. (2012) as areas to be investigated further, a part from exploring the political rationale behind the design of a performance measurement system mentioned earlier. In relation to methodological issues, the findings of this study support Hood's (2007) argument regarding the validity and reliability of complex composite measurements systems.

The study addresses gaps in the literature highlighted by Van Helden and Reichard (2013) by:

- 1) Explicitly assessing the influence of institutional context on performance measurement;
- 2) Outlining the contradictions and inconsistencies between design, implementation and use of the new measurement system applied in Indonesia, and describing how these contradictions and inconsistencies resulted in confusion for stakeholders in terms of in which direction this new measurement system should be taken, this study contributes to an understanding of interdependencies at different stages of performance measurement;
- 3) Investigating contingency factors that influence different phases of a performance measurement system;
- 4) Demonstrating empirical evidence of contingency factors at the level of individual decision makers; the factors related to the influence of educational background and

professional experiences of elected leaders on shaping their vision and mission statement.

Finally, this study presents different forms of distorted behaviour which can emerge from the implementation of a performance measurement system in the context of a developing economy (see Table 9.5). Empirical evidences of dysfunctional effects of performance measurement in the context of developing economies are new findings in the literature.

No.	Type of distorted behaviour	Comments
1.	Local government intentionally delayed reporting KPIs by submitting narrative part of the performance report only, without KPIs	Due to unavailable data and problematic system design
2.	Evaluators misused field visit to seek for bribery	Performance measurement applied under the corrupt system, also opened an opportunity for corruption
3.	Local government offering to host the regional autonomy celebration in exchange for its status to be lifted up to the top 10 best performer category	The interest to gain a good name
4.	Local government hired consultants from Financial and Development Supervisory Body that also acted as its evaluator	<ul style="list-style-type: none"> • Individual misused implementation for personal/organisational interest (Development Supervisory Body side) • Under-developed performance culture (local government side)

Table 9.5 Forms of Distorted Behaviour
Source: Developed by author, based on findings

9.3.2 Practical implications

Governments of developing economies are often tempted to embrace management techniques applied by developed economies (such as performance measurement) without considering the capacity needed to implement the system. One reason for this is that the demand for performance measurement in developing economies is often created by external stakeholders (more specifically by international donor agencies) through demand generating activities. If

the real purpose of measuring performance is to improve the quality of public services, taking out a loan to establish a performance measurement system may be an unwise decision, as the gap in public services among different regions or among different types of services in developing economies tends to be very obvious, both in terms of quantity and quality, even without performance measurement taking place.

The resources needed to repay a loan used to establish performance measurement may be better used to provide (or improve) delivery of services. Indonesian citizens in Papua for example would gain immediate benefit from a new school, hospital or road rather than from a new performance measurement system which the government does not have a capacity to implement (indeed, capacity immediately declined once support from international donor agencies ended). Organisational factors can be improved more easily than institutional factors, which are not so easy to change, partly as they are related to culture and values. Technical factors are also not easily dealt with (for example, metric difficulties or challenges of non-financial measures are not easy to address). Thus, where the public services gap can be easily identified (that is, without needing to implement a costly performance measurement system), governments in developing economies need not rush to embrace performance measurement.

It may be better for developing economies to focus first on a) developing the necessary capacity to implement performance measurement and b) reducing practices which are inconsistent with performance culture, such as informality and corruption (for example, by improving a country's work system by establishing a formal mechanism to hand over tasks and responsibility when there is staff rotation). Building performance measurement capacity cannot happen overnight. It requires sturdy supporting infrastructure to be in place. Performance measurement needs to start with improving basic systems and infrastructure (such as database management and accounting systems). When these essential conditions are not present,

implementing a performance measurement system is likely to be a waste of precious public resources. One reason why the practice of performance measurement increases significantly in developed economies is because of the advancement in information communication technology. At the same time, ICT systems and infrastructure in developing economies are not as advanced as those owned by developed economies. Establishing a performance measurement system which involves a large volume of quantitative data is thus not a sensible choice for developing economies.

The government of Indonesia has been experimenting with performance measurement to solve a problem which is highly political in nature. From the beginning, decentralisation policy in Indonesia has been highly influenced by political considerations; the decision to grant autonomy to local instead of provincial government was the most political aspect of Indonesia decentralisation policy. The requirement for elected leaders to clearly formulate their vision and mission has led to over 500 different visions statements set as targets by regions across the country. Part of the government's task is thus to try and unite these different vision statements through performance measurement: a difficult objective to achieve.

In many ways, the new Indonesian performance measurement initiative faces tough challenges. The insufficient capacity of national government to implement the initiative raises a question for stakeholders at the local and regional government levels about the commitment of national government to continue with the implementation. Stakeholders have been demotivated at the local government level. Their commitment and support is also influenced by the intended use of the initiative which is, more specifically, threatening their interests. The intended use of the performance initiative aims to achieve convergence of both local and national goals. On the other hand, local interest is to pursue local goals. The intended use is inconsistent with the circumstances of regions which are very diverse. The fact that local governments still continue

to pursue their own goals even several years after the new performance measurement initiative has been implemented shows that the measurement initiative is not effective. This is when we look at from the perspective of the national government that aimed for restructuring local government in Indonesia. However, when we look at it from the perspective of local government, in fact, local governments are still able to follow their own local democratic agendas.

With the existence of corrupt systems and high incidence of informality, the use of a customer satisfaction survey may provide more useful information about the results of decentralisation policy than a self-assessment system. Procedures such as field visits to cross-check data can worsen the situation, providing an opportunity for misuse by evaluators. Moreover, for a country as diverse as Indonesia, applying a clustering system for regions and procedures for performance adjustment are critical, otherwise comparability of measures will be significantly affected. However, development of this kind of procedure is not easy. There is a long way to go for Indonesia as a developing economy to reach this stage. Therefore, making comparisons among regions may be something that is not suitable to be applied in Indonesia at the moment; it may be more appropriate for the government to focus on improving the regulatory framework first. This could result in a reduction in the potentially conflicting regulations which can cause difficulties in performance measurement implementation. Finally, although the new measurement system applied in Indonesia involves complex procedures and employs some advanced measurement techniques, the way performance is conceptualised is incomplete from an accounting perspective. This also needs to be addressed.

9.4 Expectations: Revisit

As indicated in the introductory chapter, I expected to contribute to the literature at three levels: theoretical, empirical and methodological. Using the conceptual framework derived from both functional and institutional approaches in researching public sector performance measurement systems, I achieved two expectations: to contribute at the theoretical level and at the empirical level as discussed in the previous section. Contribution at the methodological level, however could not be achieved due to the design of the study changing during the course of the study from a mixed methods to a case study research which takes a more interpretive approach.

Hence, the development of the conceptual framework was initially informed by studies using contingency-based approaches (functional approaches), and then brought in insights from institutional approaches in researching public sector performance measurement systems (non-functionalist approaches). This idea was consistent with Chenhall (2003), who state that the purpose of contingency frameworks is to map variables that influence the effectiveness of accounting tools, which can include cultures and power, which are the concern of the institutional argument drawn from sociological theories (NIS). As the actual performance was not examined in this study, this study eventually could not be considered as a ‘true’ contingency-based study, but falls into the category of constrained-contingency-based studies. An ideal contingency-based study should demonstrate how design fits with context and then assess the impact on the real performance (Chenhall, 2003; Otley, 1980; Van Helden and Reichard, 2013). The constrained-contingency approach means that the study only examines the match between the design of performance measurement systems and their context, without taking into account whether performance measurement systems have an impact on an improved performance (Van Helden and Reichard, 2013).

Finally, the complex conflict of interest among different stakeholders cannot be shown from the conceptual framework that adopted a performance measurement systems phases approach and therefore, the work of Tillema et al. (2010) has been used for further analysis of this particular finding.

9.5 Limitations of the study

Given the limited time and resources available to complete a PhD project, the full range of stakeholders could not be included in this study. The investigation covered national, regional and local governments; however, the emphasis was on national and local government. At the national government level, I focused on the Ministry of Home Affairs; the views of sector ministries were not included. Moreover, the views of other stakeholders, such as citizens and members of the various parliaments, were not included, and those of donors were obtained from documentary analysis, rather than first hand.

This study has referred to developed and developing economies, referring to the World Bank classification of its member countries. This might be too broad. For example, variations exist between developing economies and these would thus benefit from reclassification. As this study brings together literature from the fields of development and political economy with performance literature, the context of developing economies is used interchangeably with the recipient countries of the international donor agencies. However, it may be that not all developing economies are answerable to international development agencies such as the World Bank.

Furthermore, as the performance measurement system studied in this research is specifically designed within the context of decentralisation policy, the findings of this study might be less applicable to developing economies which have not undergone decentralisation. Also, the

characteristics of decentralisation are likely to vary from one developing economy to another. Therefore, the findings of this study may only be relevant to a context where the nature of decentralisation is similar to that of Indonesia. Finally, the conclusions of this study have been influenced by the perspectives it has employed to examine performance measurement. If a different lens is used, different conclusions may be drawn.

The findings of this study only show the connection between the driver of performance measurement and the notion of neoliberalism. However, evidence of whether the neoliberal agenda has been protected as a result of the implementation of this new performance measurement system in Indonesia has not been captured. Moreover, this study does not capture evidence of whether the EKPPD is used to monitor the progress of MDGs in Indonesia. What was evident was only that MDG indicators informed the choice of indicators adopted by the EKPPD. Finally, the span of time did not allow us to observe a full cycle of the new measurement system, and this study therefore only found evidence of minor improvements made to the system design after the learning process which occurred between the first year and second years of implementation.

Finally, there was difficulty in assessing some of the local authorities. This is one of the challenges of case study work, probably made more difficult by the fact that the performance measurement system was still in use at the time this research was conducted. The fact that the interviews were concentrated in one province was one of potential limitations of the study.

9.6 Conclusions

This is a considerably comprehensive study of performance measurement in the context of developing economies, covering three different phases of performance measurement: design, implementation and use, and identifying the different elements involved and the factors

influencing each phase. Moreover, the study has investigated evidence from three different levels of government: national, regional and local government. Therefore, triangulation is achieved not only by collecting evidence from a range of sources (interviews, documentary analysis, observation) but also by confirming evidence about the same issue obtained from different stakeholders and survey questionnaires. Informants included the key appointment holders directly involved during the design stage of the system (i.e. the chair of the new performance measurement initiative) and those directly responsible for the on-going implementation process (i.e. the chair of evaluators at the national level and the head of governance unit at regional and local levels).

The case study revealed a number of contradictions and inconsistencies at different stages of the new measurement system, and ways in which these contradictions and inconsistencies led to the system's ineffectiveness. For example, the system was designed to achieve a politically difficult objective (that is, to reorganise local government in Indonesia through merger or abolition of districts/municipalities incapable of implementing decentralisation policy). Moreover, its intended use has a serious implication for Indonesian local governments (which face losing their autonomy rights); at the same time, 1) performance measurement encountered several methodological issues, and 2) technical and organisational capacity to implement the measurement system was inadequate at every level (national, regional, local) of government. These two major problems compromised the reliability of the performance index produced by this new measurement system, a reliability which has also been affected by other factors, such as a high level of incidence of corruption and informality (institutional factors).

The crude measures of performance adopted in order to determine the status of each local government and classify them into very high, high, medium and low performers are inconsistent with the degree of importance of the objective to be achieved. In other words, if

an objective is considered important, then a greater degree of care should be put into the design of the performance measures than the one currently employed. National government should not put local government in a situation where it risks losing its autonomy rights using performance measures which have not been carefully designed, a methodology of performance evaluation which is not robust, and the implementation of a measurement system which is not correct. Reorganisation of local government after autonomy has been granted is a very difficult objective⁹⁶ to achieve, even if national government employs its utmost efforts to do so. In fact, implementation of the system lacked support from stakeholders at the national government level itself⁹⁷, demonstrating a conflict of interest among different stakeholders. The EKPPD thus faced a serious deficiency in stakeholder support which prevented the achievement of its establishment objectives.

The new performance measurement system being implemented was very ambitious in comparison to the capacity to implement it, and therefore the failure of the system built up. There was deficient capacity at all levels, local, regional and national, to implement the system, which was a waste of public resources that could have been used to improve the actual public services. This problem could have been avoided if the system had been introduced gradually, starting on a small scale, for example, piloting the system into a few local governments first and assessing what could be improved before implementation at the national scale.

⁹⁶ This is particularly the case given the long history of regions fighting to gain autonomy rights from national government.

⁹⁷ Lack of support from sector ministries. Only one ministry [MoHA] and one government body [the Financial and Development Supervisory Body] implement the system, out of six ministries and four government bodies mandated by the regulation to be involved in the implementation.

9.7 Lessons Gained from the PhD Process

A PhD is a long and lonely journey: we need to devote three to four years to work on the same topic. Within those four years, I experienced ups and downs; that is why self-motivation and strong determination are really important. One of my colleagues even had to give up in her second year as she found how challenging the PhD journey could be. It was very important that we spent time thinking carefully about the topic to work on; it should be an interesting one as we will work on it for years. A good plan from the beginning is important, especially related to the availability of funding. For example, if a scholarship is only available for three years, we have to set out either to complete the PhD within three years or manage the spending wisely to ensure there will be enough money to survive for another year. Without a good plan, then the final year of the PhD can be very hard; finishing the thesis while struggling financially, which is a common situation for many PhD students, from what I observed. A PhD requires sacrifices; for example, we might not have time to socialise. If we are not careful, the PhD can damage our health. Many of my colleagues shared their experiences on how their health differed prior to and after the PhD. As mentioned earlier, the PhD requires determination; being a clever student alone is not enough.

I came from a practitioner background before starting my PhD, not an academic, to frame my way of thinking in a theoretical basis. That was why the hardest part of my PhD was defining my conceptual framework and deciding what theories to use to interpret my findings. I could not think of anything that was easier than I expected, as the PhD is indeed a difficult process.

The analysis and writing up the thesis always takes longer than expected; therefore, it is important to allow sufficient time for these stages. In terms of the approach in writing a thesis, I think a paper-based thesis seems better than the big book approach. First the advantage of writing a paper-based thesis is that it can help us to get publication faster; it is feasible to get

publication during the PhD because once one paper is finished, we can send to a journal. However, taking a big book approach requires extra effort to craft a paper from the thesis. Second, a paper-based thesis may consist of three or four papers; each paper has its own theme. It is easier to work on three or four small themes rather than one big theme (i.e. big book approach) because writing coherent arguments from the start to the end and making sure all chapters are well-connected in 80,000 words is very difficult. For a paper based-thesis, each paper can have its own theory and method. However, this can depend on supervisors' preferences and also common approaches used by departments.

Qualitative research, especially case study research, involves a lot of writings and re-writing. Therefore, it is better to not do it if someone is better at explaining things using numbers: perhaps quantitative approach will be better. Convincing arguments in qualitative research depend on the ability to construct different pieces of evidence in sentences, not relying on numbers as in a quantitative study. Therefore, before deciding to do qualitative research, it is important for the researcher to make sure that they are a good writer, especially those where English is not their first language; otherwise, we will struggle to write the thesis.

Finally, when we are writing the thesis, we are so close to it that we struggle with the detail of matters we discuss in the thesis. This can lead to failure in looking at the thesis as a bigger picture. Therefore, the earlier we can produce the first draft the better; then we can step back, take a distance from the thesis and look at it like the examiners will look at it. By doing this, we can see the big picture and make a significant improvement in the thesis.

9.8 Potential for future research

Given the limitations of the study, there is room for further research either by this researcher or others. Indonesia itself presents a very large context for work, and the same study could thus

be carried out in other provinces or expanded to include views from a larger range of stakeholders (such as other ministries, local parliaments, citizens or international donor agencies). Research at the regional government level could be expanded to explore stakeholder perspective in terms of their double roles within the new performance measurement system. Future research could also investigate the evidence, if any, of the implications of the system for the neoliberal agenda.

It would also be interesting to investigate the implications of the very recent political change in terms of the local democratic system applied in Indonesia⁹⁸, for example, how the attitude of districts heads/mayors to the top-down performance measurement system approach might change when the direct election system is abolished. This could help to clarify the mixed results of the current study in terms of local government appreciation of the EKPPD system. Evidence indicated that this was low, but there was also evidence indicating the interest of individual local governments in reaching the top of the league table. Future research could also examine how the ‘assessment’ stage causes significant improvement in design and implementation to the performance measurement system.

A similar study could be conducted in other developing economies where decentralisation policy has been implemented and a local government performance measurement system established. This would enable a comparison between the intended use of the performance measurement system in other developing economies with its intended use in the Indonesian context. Investigating performance measurement in the context of developing economies which are not answerable to the World Bank would also present an interesting area for future research.

⁹⁸ On 25 September 2014, the Indonesian parliament approved a law to abolish the direct election system for heads of districts/mayors. These will now be elected by local parliament, as was the case during 2001-04.

APPENDICES

APPENDIX I

CASE STUDY PROTOCOL

Section 1: Overview of the Case Study

This study aims to obtain a comprehensive understanding of the EKPPD system, which is the first component of a comprehensive package of the new performance measurement initiative introduced in Indonesia in 2008 known as EPPD (introduced through Government Regulation No. 6/2008). The case study will explore and explain the EKPPD system in terms of (i) the reasons why the system was developed (ii) the characteristics of the system design (iii) the effectiveness of the implementation and (iv) the use and usefulness of the system.

Indonesia is likely to struggle with the EKPPD implementation because even in the context of developed economies, performance measurement still faces challenges. The challenges are likely to be higher in the context of developing economies because of low institutional capacity and other characteristics that are inconsistent with performance culture (i.e. high corruption and informality).

Key readings:

1. Mimba, S.H.N.P., Van Helden, G.J. and Tillema, S. (2007) Public sector performance measurement in developing countries. **Journal of Accounting & Organizational Change**, 3 (3): 192-208.
2. Cavalluzzo, K.S. and Ittner, C.D. (2004) Implementing performance measurement innovations: Evidence from government. **Accounting, organizations and society**, 29 (3): 243-267.
3. Proper, C. and Wilson, D. (2003) The use and usefulness of performance measures in the public sector. **Oxford review of economic policy**, 19 (2): 250-267.
4. Jones, R. and Pendlebury, M.W. (2010) **Public sector accounting**. 6th. Essex: Pearson Education Limited.

Section 2: Contacting Key Informants and Field Work Arrangements

Procedures to contact key informants

Access to key informants should be obtained through:

1. Personal network:

Contact the available network that can open access to:

- The Ministry of Home Affairs (MoHA) and get access to informants at MoHA through the 'gate keeper.'
- Governor of C province and get help to open access to districts heads/mayors within C province.
- A province and districts/municipalities within WJ province

2. International Fellowship Program (IFP) network
Contact the IFP fellows who can open access to SS province

3. The University of Birmingham Alumni Network
Contact University of Birmingham Alumni in Indonesia who can open access to key informants for investigation at the national level.
 - An ex PhD student of doctoral supervisor that was involved in the design process of the system and acted as a local consultant assigned by CIDA to help the development of the EPPD.
 - Alumni holding a position at MoHA

Fieldwork Arrangements

Investigation for sources of evidence should be undertaken at three different levels of government:

1. National Government
2. Regional Government
3. Local Government

Start the investigation at the national government level first, and then move on to the regional and local level.

Type of evidence to be expected

- Informants to be interviewed

The first source of evidence to be included in this case study will be semi-structured interviews with key informants at different levels of government. Key informants to be interviewed and the roles in relation to the EKPPD include:

1. Key appointees at the national government who were involved in the EPPD development
2. Key appointees who have been involved in the EKPPD implementation at:
 - National government
 - Regional government
 - Local government
3. Users of the information produced from the EKPPD at:
 - National government
 - Regional government
 - Local government

- Events to be observed:

1. Process of performance report preparation at local government (performance report to be used for performance evaluation using the EKPPD system).
2. Meetings to discuss budget proposal at the local parliament (PPG municipality, 2 December 2011)
3. Workshop of reporting performance according to the EKPPD system (WS province, 27 February 2012)

- Any other documents to be reviewed on the site

1. Reporting Manuals for the purpose of the EKPPD
2. Evaluation Manuals under the EKPPD System
3. Examples of Evaluation Reports by the National Evaluation Team
4. Examples of Evaluation Reports by the Regional Evaluation team
5. List of the national ranking for evaluations conducted in the period 2008-2011)
6. Performance reports made by local government for the purpose of performance evaluation using the EKPPD system (performance reports of 2007-2012)

7. Performance reports made by local government under the previous performance measurement system
8. Local government strategic plan document
9. Local government mid-term plan
10. Local government budget
11. Profile of districts/municipalities participating in the study
12. Statistics of districts/municipalities participating in the study

- Questionnaires

Use questionnaires to collect more data (to support the qualitative data). The design of questionnaire is attached at the end of this protocol)

Expected preparation prior to site visits

There is some specific information to be reviewed before going into the field:

- General idea about the system design of the EKPPD (what aspects are to be measured, how to measure, reward and punishment systems).
- Stakeholders of the EKPPD as defined by the regulations.
- Results of previous evaluations (e.g. national rankings of local and regional government).

Section 3: Protection of Human Subject

Protection of human subjects involved in the conduct of research is very important; research should not cause any harm to the research participants. Therefore, informants should be fully informed of (i) the objectives of the research, (ii) how the data will be treated and used and how the research outcomes will be disseminated. Consent from informants should be obtained before research can be started. Therefore, before begin the interview:

1. Provide the informants with the 'research participant information sheet' containing the relevant information about the research and give them sufficient time to read the information and to ask for any clarification.
2. Ask informants to sign the consent form.

The procedures have been reviewed and approved by the University Research Ethics Committee (the ethical review application is provided in Appendix III).

Section 4: Data Collection Questions

1. Why was the regulation on the new performance measurement initiative (EPPD) issued?
Source of evidence:
 Semi-structured interviews with key informants involved in the development of the EPPD:
 - CIDA consultant assigned to help the EPPD development
 - The chair of the EPPD development team
 - Members of the EPPD development team
2. How was the EPPD developed?
Source of evidence:
 Semi-structured interviews with key informants involved in the development of the EPPD:
 - CIDA consultant assigned to help the EPPD development
 - The chair of the EPPD development team
 - Members of the EPPD development team

3. Who were involved in the development process of the EPPD? What was the role of each actor involved?

Source of evidence:

Semi-structured interviews with key informants involved in the development of the EPPD:

- CIDA consultant assigned to help the EPPD development
- The chair of the EPPD development team
- Members of the EPPD development team

4. What steps are involved in the EKPPD and where are the steps undertaken?

Source of evidence:

- Semi-structured interviews with key informant involved in the implementation process of the EKPPD at:
 - National Government
 - Regional Government
 - Local government
- Manual of performance reporting for the EKPPD
- Manual of the EKPPD evaluation

5. Who are stakeholders involved in the implementation of the EKPPD and their roles?

Source of evidence:

- Documents:
 - Government Regulation on the EPPD
 - Minister of Home Affairs Regulation No. 73/2009
 - Circulation letters of the Minister of Home Affairs
- Semi-structured interviews with key informants involved in the EKPPD implementation at:
 - National government
 - Regional government
 - Local government

6. What are problems encountered during carried out those steps? Why did the problem emerge?

Source of evidence:

Semi-structured interviews with key informants involved in the implementation process of the EKPPD at:

- National government
- Regional government
- Local government

7. Is there any evidence of that the information produced from the EKPPD has been used to inform policy-making processes? If there is, what use has been made of it? If there is no evidence, why?

Source of evidence:

- Semi-structured interviews with key informants at the Regional Autonomy Directorate at MoHA and another related directorate.
- Semi structured interviews with policymakers at the regional and local governments
- Documents:
 - Reporting Manuals for the purpose of the EKPPD
 - National evaluation reports

- Regional evaluation reports
 - Manual of financial transfers (from national to local government)
 - Local government strategic plan
 - Local government mid-term plan
 - Local government budget
8. What are the stakeholders' opinions about the measurement techniques adopted in the EKPPD?
Source of evidence:
 Semi-structured interviews with:
- Members of the EKPPD national team
 - Members of the EKPPD regional team
 - Members of the EKPPD local team
9. What are the stakeholders' expectations for the future direction of the EKPPD?
Source of evidence:
 Semi-structured interviews with key informants at:
- National Government
 - Regional Government
 - Local Government

Section 5: Outline of Case Study Report

The planned outline of this case study report as follows:

1. Introduction
2. Literature Review
3. Methodology
4. Context
5. Findings
 - 5.1 Development
 - 5.1.1 Main reasons of its development
 - 5.1.2 Actors involved in the development
 - 5.1.3 Process development
 - 5.2 System design
 - 5.2.1 Conceptualisation of performance
 - 5.2.2. Measurement techniques
 - 5.3 Implementation
 - 5.3.1 Process implementation
 - 5.3.2 Contingency factors of implementation
 - 5.4. Use and Usefulness
 - 5.4.1 Evidence of use/non-use
 - 5.4.2 Reasons for use/non-use
 - 5.4.3 Dysfunctional effects
 - 5.4.4. Expectations
6. Discussion and conclusion



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Department of Accounting and Finance

School of Business

UNIVERSITY OF BIRMINGHAM
Birmingham

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To: District head/mayor of

Dear Sir/Madam

My name is Vima Tista Putriana. I am currently a PhD student with the School of Business at the University of Birmingham in the United Kingdom. My doctoral research is titled 'Performance Measurement for Local Government in Less-Developed Economies: Indonesia as a case. Specifically, I will study the implementation of the *Evaluasi Kinerja Penyelenggaraan Pemerintah Daerah* (EKPPD) or Evaluation of Local Government Performance as a part of a comprehensive performance measurement system introduced by the Government of Indonesia through Government Regulation No. 6/2008 which is known as *Evaluasi Kinerja Penyelenggaraan Pemerintah Daerah* (EPPD) or Evaluation of Local Government Governance.

The study will cover the investigation on (i) the reasons behind the new performance measurement initiative, (ii) the characteristics of the new performance measurement system design, (iii) implementation of the system by different stakeholders (local, regional and national governments), (iv) the use and usefulness of the system, (v) local government's response to this new imposed performance measurement system and (vi) the implications for local and national governments.

In this regard, I would like to invite key government officials involved in this new performance measurement initiative to participate in this research project. This mostly involves face-to-face interviews. For further information please refer to the attached participant information sheet.

For your further consideration, I provide some supporting documents:

- a) The permission letter to conduct this research from the Directorate of Politics and Nation Unity, the Ministry of Home Affairs;
- b) Recommendation letter from the General Secretary of Regional Autonomy Directorate, Ministry of Home Affairs;
- c) Recommendation letter from my university; and
- d) Participant information sheet

I look forward to your favourable response to this research. I have provided below my contact details should you require more clarification.

Thank you.

Yours faithfully,

Vima Tista Putriana

PhD Student in Accounting and Finance

Email: [REDACTED]

Mobile: [REDACTED]

Noted By:

Professor Rowan Jones

Lead Supervisor



UNIVERSITY OF
BIRMINGHAM

12nd November 2011

To Whom It May Concern:

Re-Vima Tista Putriana

This is to confirm that Vima Tista Putriana is currently a candidate for the Doctor of Philosophy Degree (PhD) in Accounting at the University of Birmingham. Vima is researching on Performance Measurement for Local Governments in Less-Developed Economies with a specific focus on Indonesia. Vima has completed the first phase of her study and is about to embark on the data gathering stage of the research. This involves field work as she is required to access the relevant authorities as part of the research.

The study is important as the performance measurement system that has recently been introduced to Indonesian local governments is of interest to all countries, especially those with less-developed economies. Vima's study therefore aims to provide a better understanding of how performance measurement systems operate in the context of less-developed economies and what can be done to make such systems work. I can assure you that all information collected will be kept confidential and that the names of individuals or organizations involved will not be revealed in the thesis.

I will therefore appreciate if you can assist Vima by providing her with all necessary access in order to conduct her study

Yours faithfully,

Professor Rowan Jones (Supervisor)

Department Accounting and Finance
Birmingham Business School
University of Birmingham
University House
Birmingham, B15 2TT
The United Kingdom

Email:

QUESTIONNAIRE



UNIVERSITY OF
BIRMINGHAM

Code:

SURVEY

About

Implementation of the EKPPD System

This survey seeks your opinion on the EKPPD system as the new system introduced by the government to assess local government performance in Indonesia. The system is based on the Government Regulation No. 6/2008. Specifically, this survey focuses on:

1. Difficulties encountered by your local government in reporting key performance indicators (KPIs) of the EKPPD system based on your experience in administering the KPIs reporting activity.
2. The use and usefulness of the key performance indicators in informing the policy making process

Guideline to complete the questionnaire:

1. In this survey, there is no right or wrong answer because it asks your OPINION
2. Could you please complete all the questions.

Note:

All information provided in this survey is kept confidential and will not be discussed with or be given to any other party.

PROBLEMS ENCOUNTERED TO REPORT KEY PERFORMANCE INDICATORS

Guideline: *Please cross one of the boxes that is applicable to the condition at your local government*

A. DATA PROBLEMS

To what extent do you agree or disagree with these statements:

1. Working units that often supplied incomplete data was one of difficulties in reporting KPIs

- ☐ Strongly agree
- ☐ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Strongly disagree

2. Working units that often supplied invalid data was one of difficulties in reporting KPIs

- ☐ Strongly agree
- ☐ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Strongly disagree

3. For certain KPIs, the availability of data depends on an external party (i.e. Statistics Office data). This was one of difficulties in reporting KPIs.

- ☐ Strongly agree
- ☐ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Strongly disagree

4. For certain KPIs, the availability of data should wait for another reporting activity to be completed first (i.e. financial data). This was one of difficulties in reporting KPIs.

- ☐ Strongly agree
- ☐ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Strongly disagree

5. Certain type of data are not updated regularly (e.g. the width of opened green space area). This was one of difficulties in reporting KPIs.

- ☐ Strongly agree
- ☐ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Strongly disagree

6. Certain type of data had never been collected prior the first implementation of the EKPPD (e.g. number of houses). This was one of difficulties in reporting KPIs.

- ☐ Strongly agree
- ☐ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Strongly disagree

7. High frequency of staff rotation, included staff managing data at working units, was one of difficulties in reporting KPIs because data tend to be attached to the individual holding the data.

- ☐ Strongly agree
- ☐ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Strongly disagree

8. The capacity of human resources at the level of working units influences the way they interpret KPIs

- ☐ Strongly agree
- ☐ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Strongly disagree

9. A lack of ICT was one of difficulties to obtain data in a timely manner.

- ☐ Strongly agree
- ☐ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Strongly disagree

B. KPIs and FORMAT

To what extent that you agree or disagree with this statement:

10. Many KPIs of the EKPPD have been poorly designed. Therefore, it was difficult to decide which data was required to complete them. This was one of difficulties in reporting KPIs.

- ☐ Strongly agree
- ☐ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Strongly disagree

11. Reporting formats often change. This was one of difficulties in reporting KPIs.

- ☐ Strongly agree
- ☐ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Strongly disagree

12. Changes in the format and other technical aspects were often notified late (e.g. when KPIs had been completed).

<input type="checkbox"/>	Strongly agree
<input type="checkbox"/>	Agree
<input type="checkbox"/>	Neutral
<input type="checkbox"/>	Disagree
<input type="checkbox"/>	Strongly disagree

13. The timeliness of reporting KPIs of the EKPPD is the same with other main reports that local government should produce (i.e. financial reports, accountability report of district head/mayor to local parliament, and LAKIP). This one of difficulties in reporting KPIs.

<input type="checkbox"/>	Strongly agree
<input type="checkbox"/>	Agree
<input type="checkbox"/>	Neutral
<input type="checkbox"/>	Disagree
<input type="checkbox"/>	Strongly disagree

14. A lack of technical guidance on how to complete KPIs (e.g. for working units running more than one function) was one difficulties in reporting KPIs.

<input type="checkbox"/>	Strongly agree
<input type="checkbox"/>	Agree
<input type="checkbox"/>	Neutral
<input type="checkbox"/>	Disagree
<input type="checkbox"/>	Strongly disagree

C. DEGREE OF IMPORTANCE OF DIFFERENT REPORTS

15. There are many different reports that local government should produce and submit every year. You are required to put the reports mentioned below in order (1-4) according to the degree of importance of the report for stakeholders in your local government.

Please write '1' in the relevant box if the report is the first priority for stakeholders in your local government, or '2' if the report is the second priority, '3' if the report is the third priority and '4' if the report is the fourth priority.

LAPORAN KEUANGAN	<input type="checkbox"/>
LKPJ	<input type="checkbox"/>
LAKIP	<input type="checkbox"/>
LPPD	<input type="checkbox"/>

To what extent to you agree or disagree with statements below:

16. Performance evaluation under the EKPPD system has no financial consequences. This was a reason why the KPIs and evaluation results also have no influence on strategic decision making processes at the local government

☐ Strongly agree
☐ Agree
☐ Neutral
☐ Disagree
☐ Strongly disagree

17. The accomplishment of the visions and missions of the district head/mayor stated in the local mid-term plan is more of a priority than the achievement of a high EKPPD index.

☐ Strongly agree
☐ Agree
☐ Neutral
☐ Disagree
☐ Strongly disagree

D. COMMENTS AND SUGGESTIONS

Could you please write any comment or suggestion related to the EKPPD implementation and use and usefulness in the space provided below.

THANK YOU VERY MUCH FOR YOUR PARTICIPATION IN THIS SURVEY

CONTACT PAGE

Thank you for your participation in completing this questionnaire. We are interested in knowing further of your views and opinions that are very valuable for this research. To be able to contact you in the future, could you please kindly provide us with your contact details:

(To ensure the confidentiality of your answer, this contact page will be immediately separated from your answer)

Name :

District/Municipality :

Mobile Number :

Email Address :

APPENDIX II

LIST OF INTERVIEWS

Table A.II.1 Interview Schedules for investigation at the National Level

Informant	Role in the relation to the EKPPD	Date
(1) INF1/NG	An expert involved in the design process.	9 th December 2011
(2) INF2/NG	Senior official involved in the design process.	23 rd December 2011
(3) INF3/NG	Senior official involved in the design and implementation	13 rd December 2011
(4) INF4/NG	Senior official involved in the implementation stage.	14 th December 2011
(5) INF5/NG	Official involved in the implementation stage.	26 th December 2011
(6) INF6/NG	Senior official involved in the drafting of another regulation that has a connection to the PM system under studied.	16 th December 2011
(7) INF7/NG	Senior official who was expected to be one of users of the information produced from the PM system under studied.	15 th December 2011
The same as No. 3 above	Senior official involved in the design and implementation.	24 January 2012
Total: 7 Informants		Total: 8 Interviews

Table A.II.2 Interview Schedules for the investigations at the Regional and Local Levels

Informant	The Role in Relation to the EKPPD	Date
Province A:		
Regional level:		
-		
Local level (municipality)		
(1) INF1/A/x	Senior official in charge of the EKPPD implementation	4 January 2012
(2) INF2/A/mx	Senior official in charge of LAKIP	4 January 2012
(3) INF3/A/mx	Staff involved in implementation.	4 January 2012
(4) INF4/A/mx	Staff involved in implementation.	4 January 2012
Province B:		
Regional level:		
(5) INF1/B	Senior official involved in the implementation	12 January 2012
(6) INF2/B	Senior official involved in the implementation	14 January 2012

(7) INF3/B	Staff involved in the implementation	13 January 2012
(8) INF4/B	Staff involved in the implementation	
(9) INF5/B	Staff involved in the implementation	15 January 2012
Local level:		
Local level: (municipality)		
(10) INF1/B/my	Senior official expected to be involved in the implementation	16 January 2012
(11) INF2/B/my	Official involved in the implementation	12 January 2012
(12) INF3/B/my	Staff involved in the implementation	16 January 2012
Province C:		
Regional level:		
(13) INF1/C	Expected user and to lead the implementation	1 March 2012
(14) INF2/C	Official in charge of the implementation	29 February 2012
(15) INF3/C	Official involved in the implementation	9 March 2012
(16) INF4/C	Official involved in the implementation	
Local level:		
Municipality 1		
(17) INF1/C/m1	Local policy maker	6 March 2012
(18) INF2/C/m1	Senior official involved in the implementation	9 February 2012
(19) INF3/C/m1	Official involved in the implementation	9 February 2012
(20) INF4/C/m1	Junior official involved in the implementation	9 February 2012
(21) INF5/C/m1	Staff involved in the implementation	9 February 2012
(22) INF6/C/m1	Staff involved in the implementation	6 March 2012
(23) INF7/C/m1	Senior official involved in the implementation	2 February 2012
(24) INF8/C/m1	Official involved in the implementation	10 February 2012
The same as No. 21 above	Staff involved in the implementation	21 March 2012
(25) INF9/C/m1	Official involved in the implementation	31 January 2012
The same as No. 21 above	Staff involved in the implementation	21 March 2012
(26) INF10/C/m1	Official in charge of LAKIP	21 March 2012
Municipality 2		
(27) INF1/C/m2	Local policy maker	3 December 2011
(28) INF2/C/m2	Official involved in the implementation	29 March 2012
(29) INF3/C/m2	Staff involved in the implementation	29 March 2012
(30) INF4/C/m2	Senior official expected to be user of the performance information	25 April 2012

(31) INF5/C/m2	Junior official involved in the implementation	25 April 2012
(32) INF6/C/m2	Junior official involved in the implementation	27 April 2012
(33) INF7/C/m2	Senior official involved in different forms of performance reporting activities	21 February 2012
Municipality 3		
(34) INF1/C/m3	Official involved in the implementation	17 February 2012
(35) INF2/C/m3	Junior official involved in the implementation	17 February 2012
(36) INF3/C/m3	Staff involved in the implementation	17 February 2012
The same as No. 34, 35 and 36		27 February 2012
Municipality 4		
(37) INF1/C/m4	Senior official involved in the implementation	24 February 2012
(38) INF2/C/m4	Junior official involved in the implementation	24 February 2012
(39) INF3/C/m4	Junior official involved in LAKIP	24 February 2012
District 1		
(40) INF1/C/d1	Local policy maker	1 March 2012
(41) INF2/C/d1	Official involved in the implementation	1 March 2012
(42) INF3/C/d1	Junior official involved in the implementation	20 February 2012
(43) INF4/C/d1	Policy implementer (health)	20 February 2012
District 2		
(44) INF1/C/d2	Local policy maker	6 March 2012
(45) INF2/C/d2	Junior official involved in the implementation	29 February 2012
(46) INF3/C/d2	Official expected to be involved in the implementation	12 March 2012
(47) INF4/C/d2	Senior official involved in the implementation	13 March 2012
(48) INF5/C/d2	Staff involved in the implementation	13 March 2012
(49) INF6/C/d2	Staff involved in the implementation	13 March 2012
(50) INF7/C/d2	Staff involved in the implementation	13 March 2012
The same as No. 45 above	Junior official involved in the implementation	13 March 2012
District 3		
(51) INF1/C/d3	Local policy maker	5 March 2012
(52) INF2/C/d3	Senior official involved in the implementation	7 March 2012
(53) INF3/C/d3	Official involved in the implementation	7 March 2012
(54) INF4/C/d3	Senior official expected to be involved in the implementation and use	7 March 2012
(55) INF5/C/d3	Senior official involved in the implementation	7 March 2012

The same as No. 54 above	Senior official expected to be involved in the implementation and use	7 March 2012
(56) INF6/C/d3	Junior official involved in the implementation	7 March 2012
Province D:		
Regional level:		
(57) INF/D	Key appointment holder in charge of the EKPPD implementation	6 May 2012 (phone interviews)
Local level		
-		
Province E:		
Regional level:		
(58) INF/E	Key appointment holder in charge of the EKPPD implementation	10 May 2012 (phone interview)
Local level		
-		
Total: 58 Informants		Total: 52 Interviews

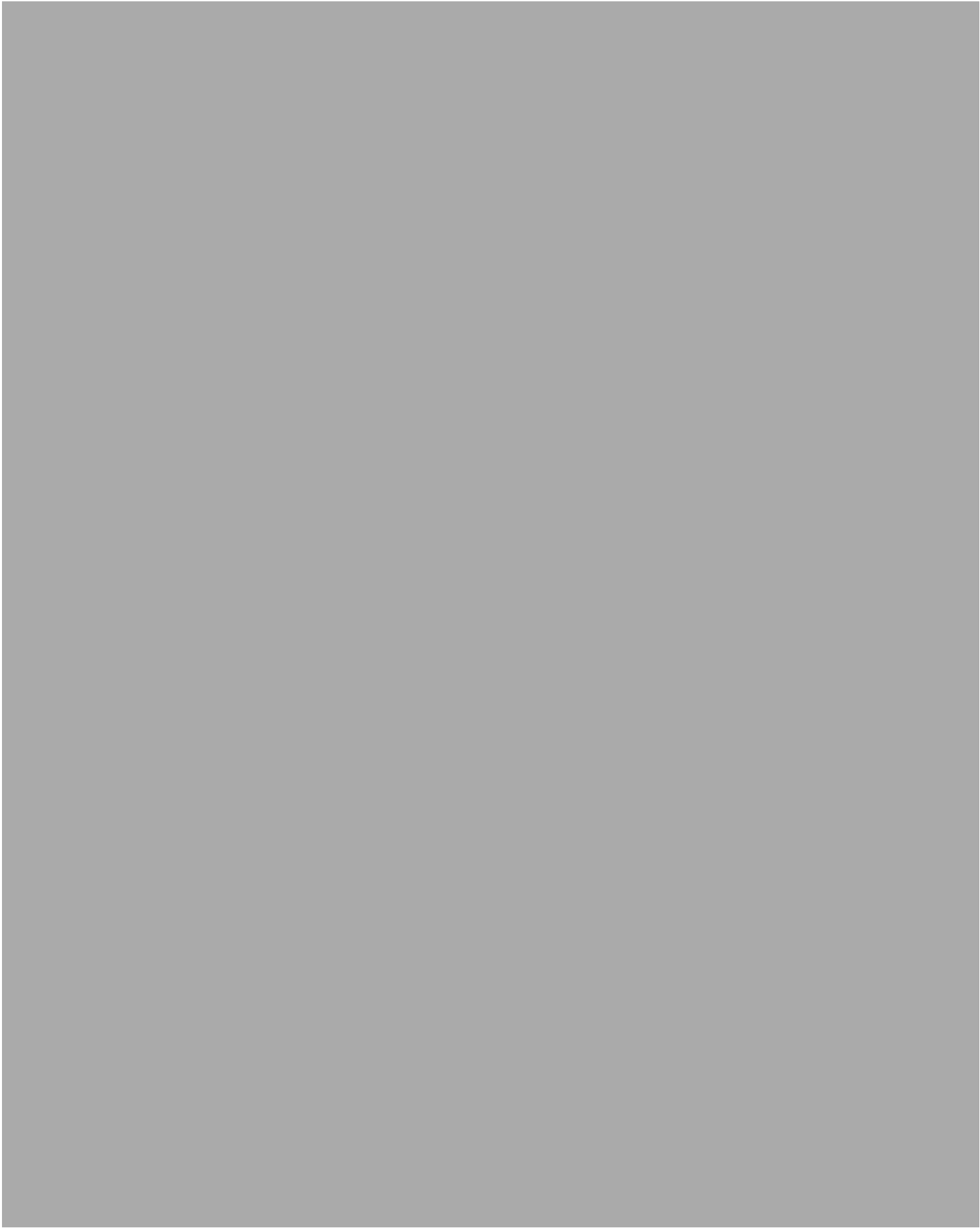
TOTAL: 60 INTERVIEWS

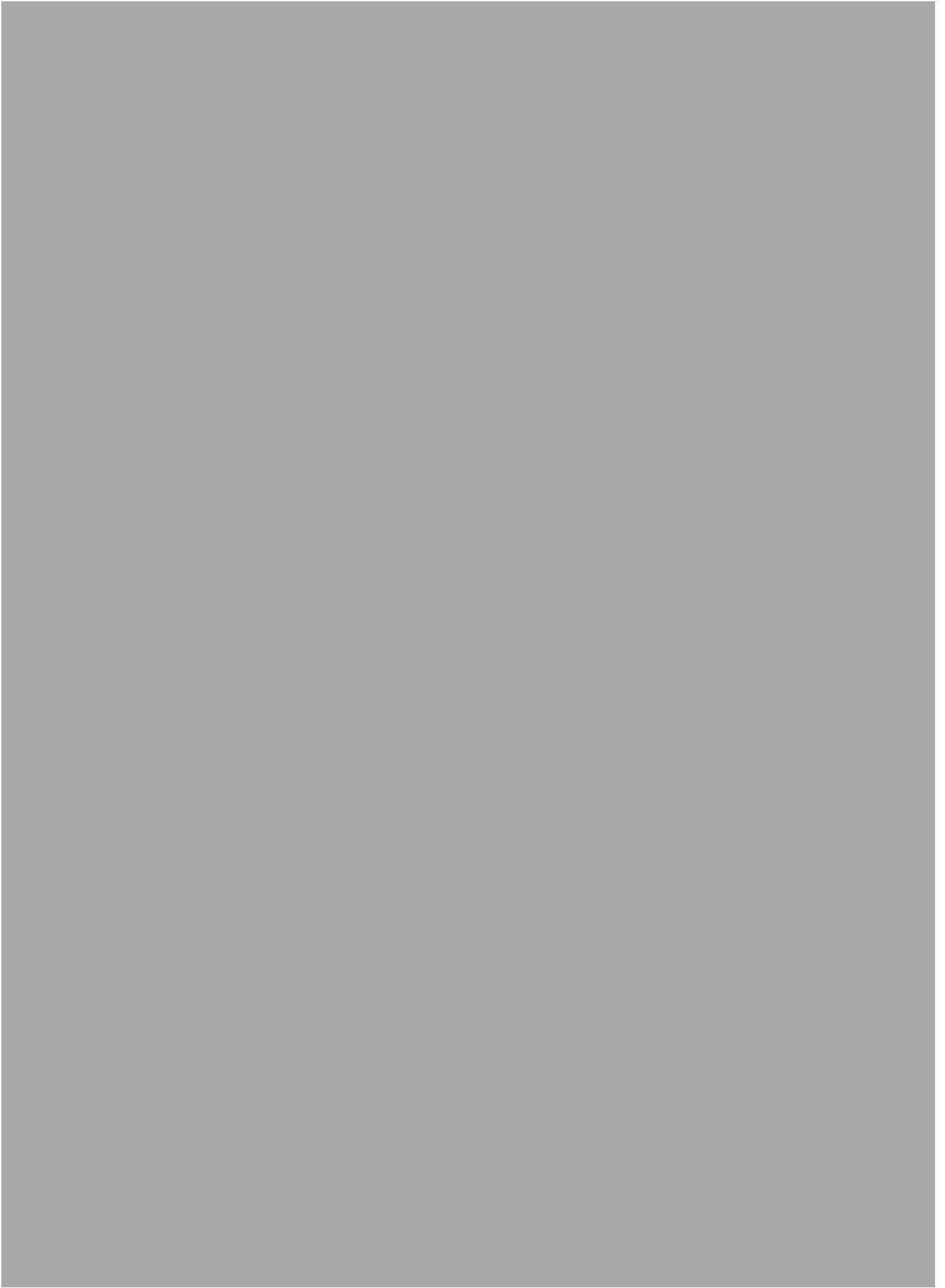
APPENDIX III

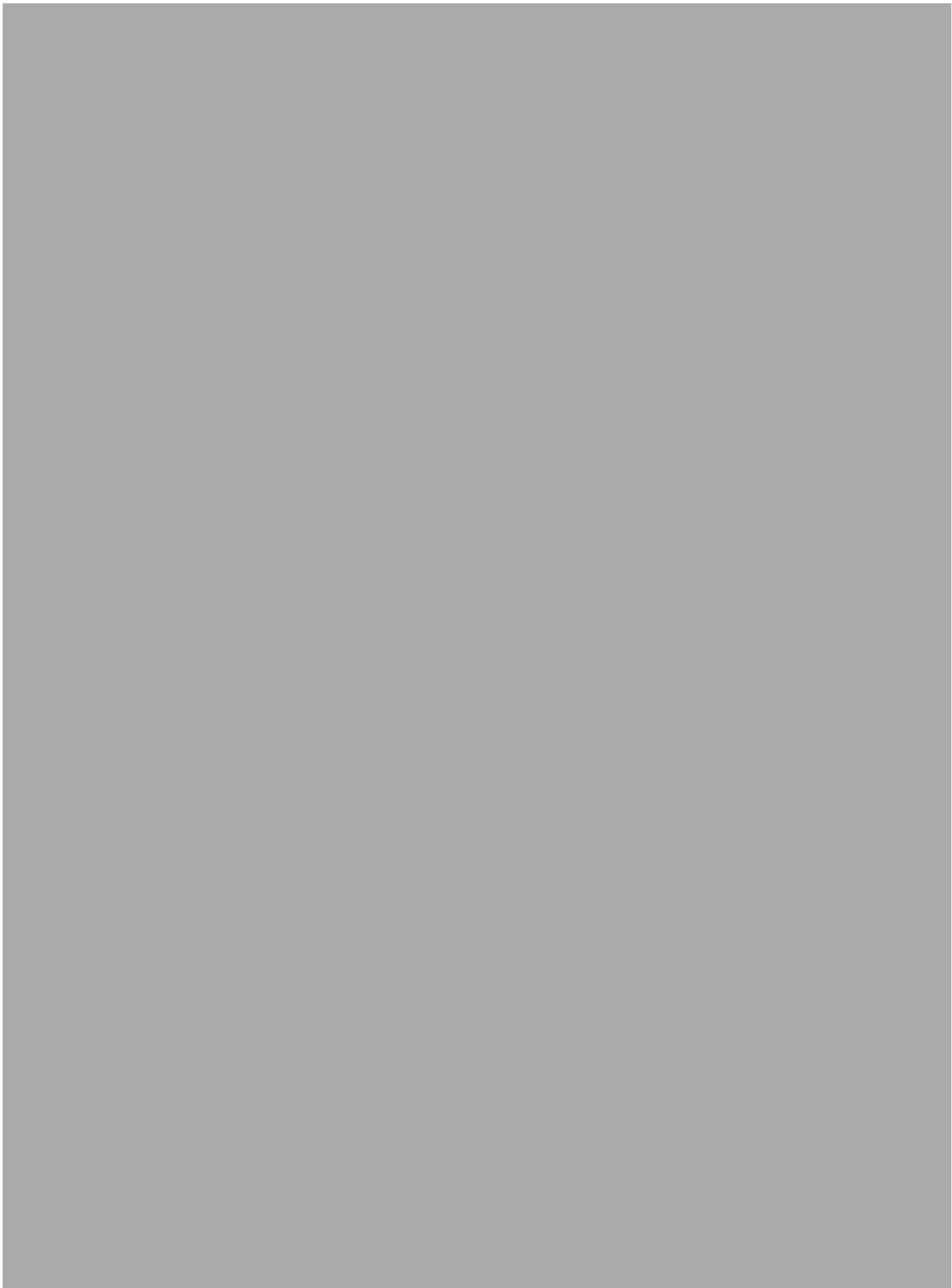
ETHICAL REVIEW

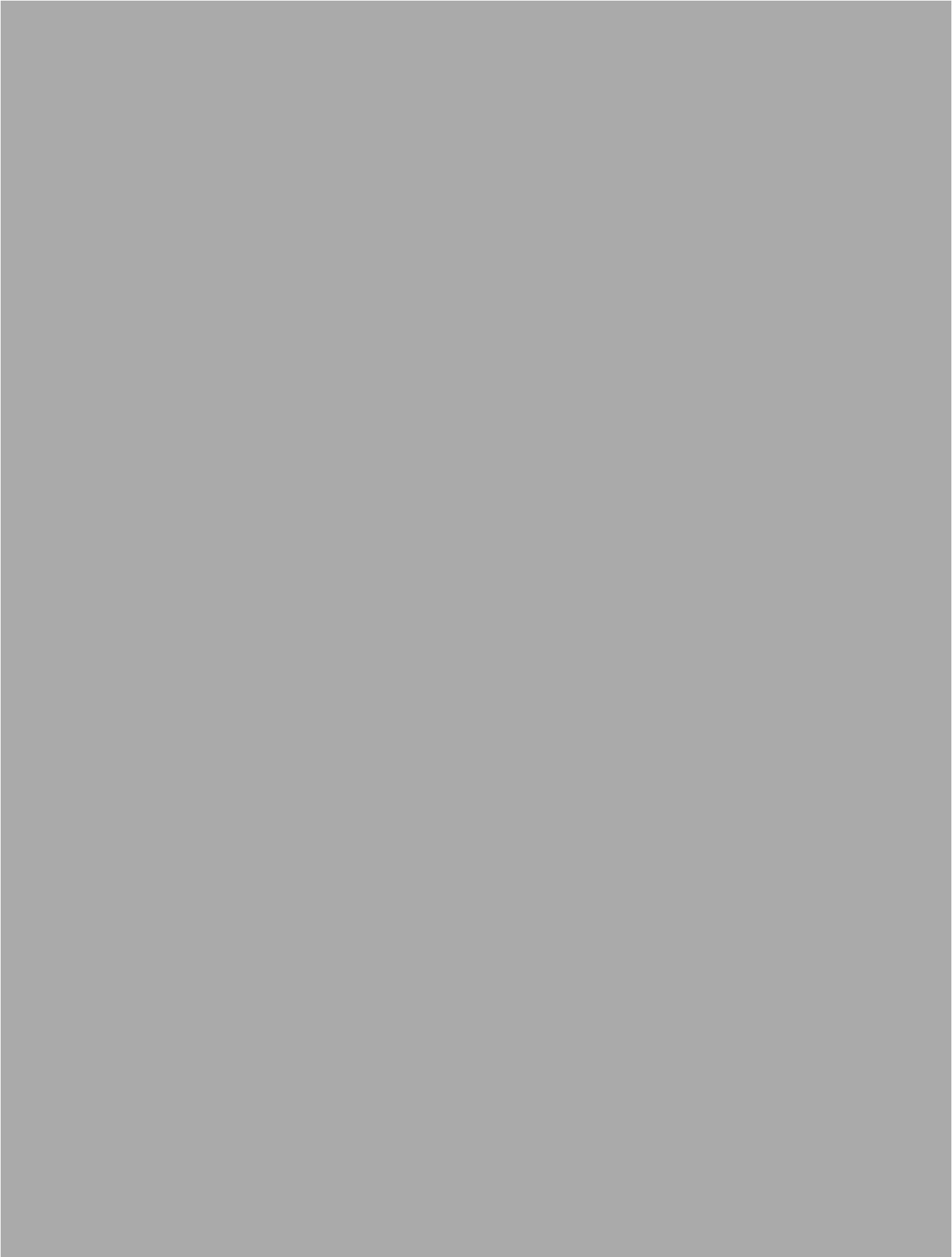














The Business School

Interview Consent Form Performance Measurement for Local Governments in Less Developed Economies: Indonesia as a Case

Part A: Interviewee

Name of interviewee: _____

Location of interview: _____

Before proceeding with the interview, please read and sign the following declaration to indicate you have consented to participate in this interview.

I hereby declare that:

- I have agreed to be interviewed for the purpose of seeking my feedback on Performance Measurement for Local Governments in Less Developed Economies: Indonesia as a Case
- The purpose and nature of the interview has been fully explained to me and I understand the ways in which the research findings for this project will be used.
- Any questions regarding the interview and all aspects of the research project have been answered to my satisfaction.
- I understand I may withdraw from the interview at any time and I have the right to refuse to answer any questions which make me feel uncomfortable.
- I understand that all personal details will be kept confidential and stored separately from the main research findings. I am also assured that all participants will remain anonymous during the presentation of the research findings.

Signature of interviewee: _____

Date: _____

Part B: Interviewer

Name of interviewer: _____

- I have explained all aspects of the project as well as the rights of the interviewee. I believe that the consent given is informed and that he/she understands the nature of the research and how the data generated from this project will be used.

Signature of interviewer: _____

Date: _____



Department of Accounting and Finance

School of Business

UNIVERSITY OF BIRMINGHAM

Participant Information Sheet

1. The Study

Title	Performance measurement in local governments in Less-Developed Economies: The case for Indonesia
Researcher	Vima Tista Putriana
Lead Supervisor	Professor Rowan Jones
Co-Supervisor	Dr. George Georgiou

You are invited to participate in this study which is being conducted in partial fulfilment of the requirements for the PhD in Accounting and Finance for Vima Tista Putriana. In order to help you make an informed decision, this information sheet outlines the reasons why the research is being conducted and what it will involve. Please read the following sections carefully and feel free seek clarification from the researcher involved.

2. What the research is about?

The study intends to evaluate the new performance measurement system for Indonesian local governments, also known as *Evaluasi Kinerja Penyelenggaraan Pemerintah Daerah* (EKPPD), as a part of a larger performance measurement initiative introduced through Government Regulation Number 6, 2008 (*Evaluasi Penyelenggaraan Pemerintah Daerah* or EPPD). The study will cover the EKPPD's design, implementation, use and impact, etc.

3. Who is involved?

The study will involve five to six key informants at the central government level who deal with the design, implementation and use of the EKPPD, particularly those from the Ministry of Home Affairs and members of the national team in charge of the implementation of the EKPPD implementation or key informants who have knowledge or relevant information in relation to the EKPPD system. Then, key appointment holders in charge of the regional evaluation at regional government level and key appointment holders in charge of reporting performance for the purpose of the EKPPD evaluation at the local/regional government level.

4. What will happen if I take part and what are the implications?

If you agree to participate in this study, approximately two hours of your time should be scheduled for the interviews to take place. All interviews will be audio-recorded. If you do not wish for such recordings to take place or you object to some parts of the process being recorded, please let the researcher know at any point during the interview. Once the transcript of the interview is completed, a copy will be sent to concerned participants so as to seek their consent prior to further processing of the information in the research endeavour. Once you confirm your decision to take part in this study, you may retain this information sheet for your records. You will also be asked to sign and hand in the consent form attached to this information sheet. Please be reminded that you will have the right to withdraw from the research process at any time you wish to without any consequence to you. If you do decide to withdraw yourself from the process, please inform the researcher by any means possible, for example via email, telephone, letters, etc. Please be assured that if you withdraw from the research process at any point of time, data concerning your participation will be deleted from the study.

5. What are the risks involved?

It is estimated that there is no potential risk in this study.

6. What benefit can I receive from the study?

Although you may not directly benefit from your participation in this research, the findings will, however, assist in addressing the limited academic attention placed on performance measurement for Indonesian local governments.

7. Confidentiality and Anonymity

You will remain anonymous and information regarding your identity will be properly coded. Pseudonyms will be used for all references to your narrative. However, if you wish, your name can be reflected in the immediate written outputs and publications that may arise from this research. In addition, your personal details will not be passed on to any other parties. Unless written consent is given, no direct quote with your name will be made in the final report. All quotes will thus remain anonymous.

8. Data Protection and archiving

All data arising from the interview (i.e. audio files, transcripts, etc.) will be treated as confidential. These data will only be accessible to the researcher and her supervisors; and will be kept in a locked cabinet at her home. All files stored in the personal laptop, where the data will be analysed, will be password and encryption protected. All data, whether physical or electronic, will be properly disposed of ten (10) years after the end of the study.

9. Research dissemination

The major written output of the study is the PhD thesis. The study may also be presented at academic conferences and published in academic journals. A soft copy of the thesis will be forwarded to the researcher's sponsor.

10. Who is conducting and funding the research?

The research will be solely conducted by Vima Tista Putriana. She was born and raised in Padang Panjang city, West Sumatera, Indonesia.

Vima, a World Bank Fellow from the University of Indonesia through the Japan-Indonesian Presidential Scholarship (JIPS) programme is a Doctoral Researcher with the University of Birmingham. As the sponsor of her three- year scholarship grant, the World Bank-JIPS is the direct funder of the study.

11. Who has reviewed the study?

The study has received clearance from the ethics Committee of the Business School and the University of Birmingham.

For further information and other concerns, please contact:

Vima Tista Putriana

Mobile:

Email :

Thank you for reading this information sheet and for considering taking part in the study.

APPENDIX IV

FULL LIST OF KEY PERFORMANCE INDICATORS

Table A. IV. 1. Key Performance Indicators of the EKPPD System (Policymaker)

Aspect	Focus	No	Key Performance Indicators	Formula	Type of Data	Performance Achievement	Notes
(1) Peace and Public Order	Local ordinance on spatial planning	1	The existence of local ordinance on building permits	Local ordinance on building permit exists or does not exist	If the local ordinance exists: state the legal form: number and year of the local ordinance	Exists/does not exist	
		2	Ratio of houses having a building permit	Number of houses having a building permit is divided by total number of houses	<ul style="list-style-type: none"> - Number of houses having a building permit by the end of 201x.....units - Total number of houses by the end of 201x.....units 	%	
		3	Availability of local ordinance on spatial planning	Local ordinance on urban planning exists or does not exist.	If the local ordinance exists: state the legal form: number and year of the local ordinance	Exists/does not exist	
	Local ordinance on citizenship	4	Obtaining a citizenship card	The length of processing time of a citizenship card	Legal basis: Number and year of the local ordinance	Number of days	When the local ordinance does not regulate the length of processing time, the data can be supported by Standard Operating Procedures (SOP)
		5	The costs of obtaining a citizenship card	The costs of obtaining a citizenship card stated in the local ordinance	Legal basis: Number and year of the local ordinance	Amount of the charge (IDR) or free	When local ordinance does not regulate the costs, it can be supported by SOP
	Local policy on social police	6	Ratio of social police to total number of population	Number of social police per 10,000 population	<ul style="list-style-type: none"> - Number of social police (with status of civil servant) by the end of 201x - Total population by the end of 201x 	per 10,000 population	
	Local policy on sex workers and movable traders	7	The existence of local ordinance on sex workers and moveable traders	Local ordinance on sex workers and moveable	If the local ordinance exists: state the legal form: number and year of the local ordinance	Exists/does not exist	

				traders exists or does not exist			
	Local ordinance on cleanliness of the city	8	Existence of local ordinance on cleanliness of the city	Local ordinance on cleanness of the city exists or does not exist	If the local ordinance exists: state the legal form: number and year of the local ordinance	Exists/does not exist	
(2) Harmony and effectiveness of relationship between the local and national governments and among local authorities	Report submission to the national government	9	Timeliness of performance report submission (based on the Government Regulation number 3/2007)	The report submission is on time or not	Proof of report submission: Number and date of cover letter of the report submission	On time/not on time	
	Financial performance report submission	10	Timeliness of financial performance report submission (based on the Government Regulation number 8/2006)	The report submission is on time or not	Proof of report submission: - Number and date of cover letter of financial reports submission - Number and date of cover letter of performance reports submission	On time/not on time	
	Implementation of Minimum Service Standard (MSS)	11	Functions whereby the MSS of the respective functions have been implemented	Number of functions whereby the MSS of the respective functions have been implemented	Functions that have been implemented by local governmentfunctions, that consist of: 1) Function..... 2) Function..... 3) Function..... 4) Function..... 5) Function..... 6) Function.....	Number of functions	
	Relationship among regions	12	Cooperation and partnership with other regions	Number of Memoranda of Understanding (MoU) that are still valid until 201x	Number of Memoranda of Understanding (MoU) that are still valid until 201x consist of.....MoU, with details as follows: 1) MoU with.....on.... 2) MoU with.....on.... 3) MoU with.....on.... 4) Etc.	Number of MoU	
(3) Harmony of local policies and the national government's policies	Synchronisation of local and national development implementation	13	Synchronisation of development priorities	Number of local development priorities is divided by the number of the national development priorities ⁹⁹	- Local development priority (local government work plan) - The national government' development priorities	%	

⁹⁹ Programme priorities of the national government include: (1) bureaucratic reform and governance (2) education (3) health (4) poverty eradication (5) food resilience (6) infrastructures (7) investment climate and business climate (8) energy (9) environment and natural disaster management (10) the under-developed, the islands located nearest to the country border and post-conflict regions and (11) culture, creativity and technology innovations.

	Responsibility	14	Obligatory functions that are implemented by local government	Number of functions that are implemented by local governments are divided by 26 (total obligatory functions according to government regulation number 38/2007), times 100%	Number of obligatory functions that are implemented in 201x	%	Match with the plans and budget documents of 201x, the revised local budget and financial reports.
	Finance	15	The approval of 201x budget (the time)	Timeliness of local budget approval	If the approval is on time, state the legal form: number and date of the local ordinance on local budget of 201x (the latest should be 31 st December 200x-1)	On time/not on time	It is classified as delayed (not on time) if the approval is after 31 st of December of 200x-1
		16	Existence of local ordinance related to local financial management (based on government regulation number 58/2005)	Local ordinance on local financial management exists or does not exist	If the local ordinance exists: state the legal form: number and year of the local ordinance	Exists/does not exist	
		17	Expenditure on basic services	Expenditure on basic services is divided by total expenditures, times 100%	Expenditure for basic services in the local budget of 201x 1) Education function IDR 2) Health function IDR 3) Environment function IDR 4) Public works function IDR 5) Social function IDR 6) Labour force function IDR 7) Cooperation function IDR 8) Social police function IDR 9) Civil registration & citizenship function IDR Total basic services expenditures IDR Total expenditure in the local budget of 201x IDR	%	
		18	Expenditure on education and health	Expenditure on education and health is divided by total expenditures, times 100%	Expenditure on education and health in local budget of 201x: 1) Education function IDR 2) Health function IDR Total expenditure on education and health IDR Total expenditure in the local budget of 201x IDR	%	
	Public services	19	Existence of local ordinance on public services standard, based on laws and regulations	Public services standards exist or do not exist	If the standards exist, state the legal form: number and date of the local ordinance on public services standard	Exist/do not exist	

	Human resources	20	Ratio of civil servants to total population	Number of civil servants is divided by total population in the city	- Number of civil servant in 2010 - Total of population of 2010	Ratio	
		21	Information system for human resources management	Database of human resources is available or not available	If database on human resources is available, state the name of the database	Available/not available	
	Organisation	22	Arrangement of working units	Formations of working units, based on government regulation number 41/2007	Number of working units: 1) Local government secretariat.....units 2) Agencies.....units 3) Bodies.....units 4) Offices.....units 5) Hospitalsunits 6) Sub-districtsunits Number of working unitsunits	Number of units	
(4) Effectiveness of relationship between local authority and local parliament	Regulations	23	The local ordinances that were issued in a year	Number of local ordinances that were issued in 201x	Number of local ordinances approved in 201x was.....local ordinances (list is attached)	Number of ordinances	
	The proposed regulations in a year	24	Local ordinances proposal that were approved by local parliament in 201x	Number of proposed local ordinances is divided by number of approved local ordinances in 201x	- Number of local ordinances that were proposed in 201x - Number of local ordinances that were approved by local parliaments in 201x	%	
(5) Effectiveness of decision making process by local parliaments and the follow up of the decisions	Follow up of local parliament's decisions	25	Local parliament's decisions that were followed up	Number of local parliament's decisions that were followed up is divided by number of local parliament's decisions that were made in 201x, times 100%	- Number of local parliament's decisions that were followed up in 201x - Number of local parliament's decisions that were made in 201x	%	
(6) Effectiveness of decision making process by the mayor and the follow up of the decisions	Follow up of the mayor's decisions	26	The mayor's decisions that were followed-up	Number of the mayor's decisions that were followed-up is divided by number of the mayor's decisions in 201x, times 100%	- Number of the mayor's decisions that were followed-up in 201x - Number of the mayor's decisions in 201x	%	
	Follow up of the mayor's regulation	27	The mayor's regulation that were followed-up	Number of the mayor's regulation that were followed-up is divided by number of the mayor's regulations in 2010, times 100%	- Number of the mayor's regulations that were followed-up regulations in 2010 - Number of the mayor's regulations in 2010	%	
(7) Obedience of local governance to laws and regulations	Local ordinances that were cancelled	28	Number of local ordinances that were cancelled	Number of local ordinances that were cancelled is divided by number of local ordinances that were submitted to the	Local ordinances that were cancelled areconsisting of: 1) Local ordinance number...year 201x on....	%	

				government for the evaluation, times 100%	2) Local ordinance number...year 201x on.... 3) Local ordinance number...year 201x on.... 4)		
(8) Intensity and effectiveness of public consultation related to strategic local policies	The existence of local regulation on public consultation	29	The existence of the district head/mayor's regulation on public consultation	The district head/mayor's regulation on public consultation exists or does not exist	If the regulation exists, the number of district head/mayor's regulation	Exists/does not exist	
	Local government media accessible to the public	30	Availability of information media owned by local government that can be assessed by the public	Availability of information media that are regulated by the district head/mayor's regulation	If media are available, state: -name of the media and -number of the regulation	Available/not available	
(9) Transparency in utilisation of transfer funds	Absorption of general allocation fund	31	Proportion of general allocation fund that can be utilised compared to what was planned	Amount of general allocation fund utilised compared to amount of transfer in form of general allocation fund, times 100%	- General allocation funds utilised in 201x - General allocation funds budgeted for 201x	%	
	Expenditure budget financed through general allocation funds	32	Proportion of public expenditure compared to general allocation funds	Amount of public expenditure is divided by general allocation funds, times 100%	- Direct expenditure in the local budget of 201x - General allocation funds budgeted for 201x	%	
	Proportion of expenditures in the local budget	33	Direct expenditures to total local budget	Total direct expenditures is divided by total local budget, times 100%	- Direct expenditure in the local budget of 201x - Total expenditures in the local budget of 201x.	%	
(10) Intensity, effectiveness and transparency of the exploration of original local income and loans/local bonds	Proportion of original local income	34	Proportion of original local income compared to total revenues within the local budget	Amount of original local income is divided by total revenue (realisation), times 100%	- Amount of original local income in the local budget (realisation) - Total revenues in the local budget (realisation)	%	
(11) Effectiveness of planning, execution, management and accountability and monitoring of local budget.	Truth and fairness of financial reports	35	Audit opinion on financial report	Type of opinion issued by the Supreme Audit Office on the audit of financial reports	- Audit opinion on financial report of 200x-2 - Audit opinion on financial report of 200x-1	Type of audit opinion of year 201x-2 and 201x-1	Opinion: 1) Unqualified 2) Qualified 3) Disclaimer 4) Adverse Audit opinion on the financial report of 200x is provided during the field visit for the respected year.

	Proportion of residual income	36	Ratio residual income to total revenues	Amount of residual income is divided by total revenue, times 100%	- Residual income of 201x - Total revenues of 201x	%	
	Expenditures realisation	37	Proportion of expenditures (realisation) to budgeted	Realised expenditures is divided by budgeted expenditures, times 100%	- Expenditures of 201x (realisation) - Expenditures of 201x (budget)	%	
	Monitoring by local inspectorate	38	Follow up the audit findings on financial reports	Number of audit findings of the Supreme Audit Office addressed until the end of 201x	- Number of audit findings until the end of 201x-1 - Number of audit findings addressed until the end of 201x	%	
(12) Local potency management	The map of potential sources owned by local government	39	Proportion of original local income (realisation) to potential sources owned by local government	Amount of original local income (realisation) is divided by the value of potential sources owned by local government, times 100%	- Amount of original local income (realisation) in 201x - The value of potential sources owned by local government in 201x	%	
	Increase of original local income	40	Increase of original local income	Increase/decrease original local income from the previous year, times 100%	- Total original local income in 201x-1 - Total original local income in 201x	%	
(13) Innovation in governance	Awards	41	Awards from government received by local government in 201x	Number of awards received from the government in 201x	Number of awards..., consists of: 1) 2) 3) etc.	Number of awards	
	Procurement	42	E-procurement	Implementation of e-procurement	When e-procurement has been in operation, mention the month and year it was started	Exists/does not exist	
	Local competitiveness	43	Number of investment approvals	Number of investment permits in 201x	Number of investment permits approved in 201x	Number of permits	

Table A. IV. 2. Key Performance Indicators of the EKPPD System (Policy Implementer Level- General Administrative Aspect)

Aspect	Focus	No	Key Performance Indicators	Formula	Type Of Data	Performance Achievement		Notes
						Function 1	Function 2	
(1) Technical policies of functions implementation	National programmes attached to sector ministries that have to be implemented by local government organisations	1.	Number of national programmes that have to be implemented by local government organisations	Number of national programmes that can be implemented by local government organisations divided by national programmes times 100%	-Number of national programmes - Number of national programmes that can be implemented by local government organisations	%	%	Should refer to the national programmes of 2010 for each functions
	Consistency with technical policies issued by the government through sector ministries	2.	Availability of standard operating procedures (SOPs)	Available or not available	If available, state how many SOPs are available and provide the details.	Available or not available	Available or not available	
(2) Obedience on laws and regulations	Number of local ordinances that have to be implemented by local government organisations according to ministries' regulations	3.	Ratio of implementing regulations available to implementing regulations that have to be carried out according to ministries' regulations	Number of implementing regulations available is divided by number of implementing regulations that have to be carried out times 100%		%	%	Minimum service standard on : 1. Health 2. Social security 3. Education 4. Environment 5. Family planning 6. Women's empowerment
(3) Organisational arrangement	Filling the organisational Structure	4.	Ratio of positions and echelon filled	Number of positions filled divided by number of positions available		%	%	
		5.	Availability of functional positions in the organisational structure	Functional positions are available or not available		Available or not available	Available or not available	Please refer to the latest condition of organisation by the 2010
(4) Staff management	Competence level of human resources in implementing local government organisations tasks that are relevant with related functions	6.	Municipality civil servant ratio	Number of civil servant in local government organisation to total municipality civil servants	- Number of civil servant in local government organisations - Number of civil servant in the municipality	Ratio	Ratio	Please refer to the latest conditions of the organisation by 2010
		7.	Officials ¹⁰⁰ that have meet the criteria of leadership trainings	Number of officials that have meet the criteria of leadership trainings is divided by total number of		%	%	

¹⁰⁰ The term of officials here refers to civil servants assigned to a working unit with a certain managerial position

				officials of working units, times 100%				
		8.	Officials that have meet the criteria to hold their respective position	Number of officials at a specific grade (echelon) that meet the criteria to hold that position divided by number of officials at that specific grade (echelon), times 100%	<ul style="list-style-type: none"> - Number of officials at a specific grade (echelon) and meeting the criteria to hold that position - Number of officials at the respective grade (echelon) 	%	%	
(5) Planning and development	Completeness of planning documents owned by a working unit	9.	The existence of planning documents at a working unit. <ul style="list-style-type: none"> - Strategic planning - Annual planning - Budget planning 	Planning documents are available or not available within a working unit. If available, state the name of documents	If the documents exist, state number and name of documents: 1)..... 2)..... 3).....	Number and type of document	Number and type of document	
	Synchronisation of programmes started in the local government organisations' work plan and programmes stated in the local government's work plan	10.	Number of programmes stated in the 'work plan' document of local government that are not accommodated in the 'work plan' document of a working unit.	Number of programmes stated in the 'work plan' document of local government that are not accommodated in the 'work plan' document of a working unit divided by number of programmes allocated to be the work programmes of the respective of the working unit according to the local mid-term plan, times 100%	<ul style="list-style-type: none"> - Programmes stated in the 'work plan' document of local government that are not accommodated in the 'work plan' document of a working unit - Programmes that should be included in the 'work plan' document of the working unit according to the local mid-term plan 	%	%	
	Synchronisation between the 'work plan budget' document and the 'work plan' document of a working unit.	11.	Number of programmes stated in the 'work plan' document that are not accommodated within 'work plan budget' document of a working unit	Number of programmes stated in the 'work plan' document that are not accommodated within 'work plan budget' document of a working unit is divided by number of programmes in the 'work plan budget' document of a working unit, times 100%.	<ul style="list-style-type: none"> - Number of programmes stated in the 'work plan' document that are not accommodated within the 'work plan budget' document of a working unit - Number of programmes in the 'work plan budget' document of a working unit 	%	%	
	Planning, programmes execution and budgeting	12.	Number of programmes stated in 'work plan' document of a working unit that are not accommodated in the 'budget execution document' of the respective working unit.	Number of programmes stated in the 'work plan' of a working unit that are not accommodated in the 'budget execution document of the respective working unit, divided by	<ul style="list-style-type: none"> - Programmes stated in the 'work plan' of a working unit that are not accommodated in the 'budget execution document of the respective working unit. 	%	%	

				Number of programmes included in the 'budget execution document' of the working unit, times 100%	- Programmes included in the 'budget execution document' of the working unit,			
(6) Local financial management	Budget Allocation	13.	Proportion of working unit budget to total expenditures in the local budget	Budget allocation for a working unit divided by total local budget, times 100%	- Total budget for a working unit - Total expenditures in the local budget.	%	%	
	Capital expenditure	14.	Proportion of capital expenditures to total expenditures of working unit	Capital expenditures divided by total expenditures of the respective working unit	- Capital expenditure of a working unit - Total expenditures the respective working unit	%	%	
	Maintenance expenditure	15	Proportion of maintenance expenditure to total goods and services expenditure of a working unit	Maintenance expenditure of a working unit is divided by total goods and services expenditure of the respective working unit	- Maintenance expenditure of a working unit - Goods and services expenditure of the respective working unit.	%	%	
		16	Proportion of maintenance expenditure to total expenditure of a working unit	Maintenance expenditure of a working unit is divided by total expenditure of the respective working unit	- Maintenance expenditure of a working unit. - Total expenditure the respective working unit	%	%	
	Financial reports	17	Existence of financial reports of a working unit (Balance sheet and notes to financial statement)	Financial report exists or do not exist at the working unit	If financial reports exist, state number and names of the financial reports.	Exist/do not exist		
(7) Local asset management	Assets management	18	The existence of assets registration at a working unit	Assets registrations exist or do not exist at the working unit		Exist/do not exist	Exist/do not exist	
	Assets utilisation	19	Unutilised assets	Number of unused assets divided by assets possessed by the working unit, times 100%	- Unused assets - Assets possessed	%	%	
(8) Public participation	Forms of facilities for public participation available	20	Number of information facilities: 1. Announcement board 2. Complain post 3. Leaflet 4. etc.	Number of information facilities	State type of facilities: 1)..... 2)..... 3).... 4).... 5).....	Number of different types of facilities available	Number of different types of facilities available	
	Responsiveness towards public participation	21	The existence of citizen a satisfaction survey	Results of citizens a satisfaction survey exist or do not exist	If the survey exists, state the name of the survey	Exists/ does not exist	Exists/ does not exist	

Table A. IV. 3. Key Performance Indicators of the EKPPD System (Policy Implementer Level- Achievement of Minimum Service Standards)

Functions	No	Key Performance Indicators	Formula	Performance Achievement	Notes
Obligatory Functions					
(1) Education	1.	Nursery education	$\frac{\text{Number of students at nursery education}}{\text{Number of children aged 4 – 6 years}} \times 100\%$	%	
	2.	Literacy rate	$\frac{\text{Citizens aged } \geq 15 \text{ years old that are literate}}{\text{Total citizens aged } \geq 15 \text{ years}} \times 100\%$	%	
	3.	Absolute participation number (elementary school or equivalent)	$\frac{\text{Number of students aged 7 – 12 years at elementary school}}{\text{Number of citizens aged 7 – 12 years}} \times 100\%$	%	
	4.	Absolute participation number (junior high school or equivalent)	$\frac{\text{Number of students aged 13 – 15 years at junior high school}}{\text{Number of citizens aged 13 – 15 years}} \times 100\%$	%	
	5.	Absolute participation number (senior high school or equivalent)	$\frac{\text{Number of students aged 16 – 18 years at junior high school}}{\text{Number of citizens aged 16 – 18 years}} \times 100\%$	%	
	6.	Discontinued rate (elementary school or equivalent)	$\frac{\text{Number of students discontinued their education at elementary school or equivalent}}{\text{Number of students at the same elementary school from the previous year}} \times 100\%$	%	
	7.	Discontinued rate (junior high school or equivalent)	$\frac{\text{Number of students discontinued their education at junior high school or equivalent}}{\text{Number of students at the same level of junior high school in the previous year}} \times 100\%$	%	
	8.	Discontinued rate (senior high school or equivalent)	$\frac{\text{Number of students discontinued their education at senior high school or equivalent}}{\text{Number of students at the same level of education in the previous year}} \times 100\%$	%	
	9.	Completion rate (elementary school)	$\frac{\text{Number of students completed their education at elementary school or equivalent}}{\text{Number of students at the highest level of elementary school in the previous year}} \times 100\%$	%	
	10.	Completion rate (junior high school)	$\frac{\text{Number of students completed their education at junior high school or equivalent}}{\text{Number of students at the highest level of junior high school in the previous year}} \times 100\%$	%	
	11.	Completion rate (senior high school)	$\frac{\text{Number of students completed their education at senior high school or equivalent}}{\text{Number of students at the highest level of senior high schools in the previous year}} \times 100\%$	%	
	12.	Continuation rate from elementary school to junior high school	$\frac{\text{Number of new students at the first level of junior high school}}{\text{Number of students completed elementary school from the previous year}} \times 100\%$	%	
	13.	Continuation rate from junior high school to senior high school	$\frac{\text{Number of new students at the first level of senior high school}}{\text{Number of students completed junior high school from the previous year}} \times 100\%$	%	
	14.	Teachers meeting degree qualification	$\frac{\text{Number of teachers having the qualification of Diploma – IV or first degree}}{\text{Number of teachers at elementary school or equivalent, junior/senior high school or equivalent}} \times 100\%$	%	
(2) Health	15.	Midwifery complications treated	$\frac{\text{Number of complications handled within a specific work area \& specific period of time}}{\text{Number of pregnant women with complications within the same work area \& the same period of time}} \times 100\%$	%	
	16.	Deliveries assisted by midwives	$\frac{\text{Number of deliveries assisted by midwives within a specific work area \& period of time}}{\text{Number of deliveries within the same work area \& period of time}} \times 100\%$	%	
	17.	Universal child immunisation (UCI) coverage	$\frac{\text{Number of UCI villages}}{\text{Number of villages}} \times 100\%$	%	
	18.	Babies with bad nutrition treated	$\frac{\text{Number of babies with bad nutrition receiving treatment at local health center in a specific time period}}{\text{Number of babies with bad nutrition in the same work area and the same period of time}} \times 100\%$	%	

	19.	Tuberculosis cases found and treated	$\frac{\text{Number of new tuberculosis cases found and treated within the same work area in a year}}{\text{Number of predicted tuberculosis cases within the same period of time}} \times 100\%$	%	
	20.	Dengue haemorrhagic fever cases found and treated	$\frac{\text{Number of dengue haemorrhagic fever cases found and treated within a certain work area in a year}}{\text{Number of dengue haemorrhagic fever cases found within the same work area & period of time}} \times 100\%$	%	
	21.	Health services provided for poor patients	$\frac{\text{Number of visits of poor patients to a health center}}{\text{Number of poor population in the district/municipality}} \times 100\%$	%	
	22.	Babies visits	$\frac{\text{Number of babies visited served according to the standard within a specific work area & period of time}}{\text{Number of babies delivered alive within the same work area & period of time}} \times 100\%$	%	
(3) Environment	23.	Garbage collection	$\frac{\text{Volume of garbage handled (M3)}}{\text{Volume of garbage produced (M3)}} \times 100\%$	%	
	24.	Control on implementation of 'environmental analysis impact'	$\frac{\text{Number of companies that are subject to environmental analysis impact that have been monitored}}{\text{Number of companies that are subject to environmental analysis impact}} \times 100\%$	%	
	25.	Garbage disposal points per thousand population	$\frac{\text{Capacity of garbage disposal points (m3)}}{\text{Number of population}} \times 100\%$	%	
	26.	Law enforcement	$\frac{\text{Number of environmental cases solved}}{\text{Number of environmental cases}} \times 100\%$	%	
(4) Public Works	27.	Miles of road in good condition	$\frac{\text{Miles of road in good condition}}{\text{Total miles of road}} \times 100\%$	%	
	28.	The width of district irrigation in good condition	$\frac{\text{Width of irrigations in good condition}}{\text{Total width of irrigations}} \times 100\%$	%	
	29.	Households equipped with sanitation facilities	$\frac{\text{Number of households having sanitation facilities}}{\text{Number of households}} \times 100\%$	%	
	30.	Dirty area	$\frac{\text{The width of dirty area}}{\text{Total area}} \times 100\%$	%	
(5) Spatial planning	31.	Opened green space area	$\frac{\text{The width of opened green space area}}{\text{Total authorised area for buildings}} \times 100\%$	%	
(6) Planning	32.	The existence of local strategic planning stipulated by local ordinance	-	Exist/do not exist	
	33.	The existence of local mid-term plan stipulated by local ordinance or district head/mayor's regulation	-	Exist/do not exist	
	34.	The existence of a local government work plan (annual plan), stipulated by the district head/mayor's regulation		Exist/do not exist	
	35.	Translation of programmes included in the local mid-term plan to local government work plan (annual plan)	$\frac{\text{Number of programmes included in the local government work plan}}{\text{Number of programmes stated in local mid – term plan that have to be implemented in the respective year}} \times 100\%$	%	
(7) Housing	36.	Households having access to clean water	$\frac{\text{Number of households having access to clean water}}{\text{Total number of households}} \times 100\%$	%	
	37.	Dirty housing area	$\frac{\text{The width of dirty housing area}}{\text{Total width of the area}} \times 100\%$	%	

	38.	Habitable housing	$\frac{\text{Number of habitable houses}}{\text{Total number of houses in the respective local government}} \times 100\%$	%	
(8) Youth & Sport	39.	Youth gathering facilities (except owned by private sector)	$\frac{\text{Number of youth gathering facilities}}{\text{Number of population}} \times 1000$	Per 10,000 population	
	40.	Sport facilities	$\frac{\text{Number of sport facilities within a district}}{\text{Number of population}} \times 1000$	Per 10,000 population	
		Sport facilities are: 1. Football field = 2. Basket Ball field = 3. Volley Ball field = 4. Badminton field = 5. Swimming Pool = Total =			
(9) Capital Investment	41.	Increase/decrease of capital investment	$\frac{\text{Realisation of capital investment in 201x} - \text{realisation of capital investment in 2010x} - 1}{\text{Realisation of capital investment in 201x} - 1} \times 100\%$	%	
(10) Cooperation & SMEs	42.	Active cooperation	$\frac{\text{Number of active cooperation}}{\text{Number of total cooperation}} \times 100\%$	%	
	43.	Micro and small businesses	$\frac{\text{Number of micro and small businesses}}{\text{Number of small medium enterprises}} \times 100\%$	%	
(11) citizenships and civil registration	44.	Ownership of citizenship card	$\frac{\text{Number of population having a citizenship card}}{\text{Number of population obligated to have a citizenship card (> 17 years old or married men and women)}} \times 100\%$	%	
	45.	Ownership of date birth certificate	$\frac{\text{Number of population having a birth certificate}}{\text{Total population}} \times 1000$	Per 1,000 population	
	46.	Implementation of citizenship card based on unique family number	Has been implemented/not yet been implemented	Yes/No	
(12) Labour	47.	Employment rate	$\frac{\text{Number of population in employment}}{\text{Number of population of productive age (15 – 64 y. o)}} \times 100\%$	%	
	48.	Job seeker placement rate	$\frac{\text{Number of job seekers that got placement}}{\text{Number of registered job seekers}} \times 100\%$	%	
(13) Food resilience	49.	Regulation on food resilience	The existence of regulations on food resilience either in the form of local ordinance or the district head/mayor's regulation or other form of regulation	Exist/do not exist	
	50.	Availability of staple food	$\frac{\text{Average availability of staple food (kg)}}{\text{Number of population}} \times 1000$	Per 1,000 population	
(14) Women's empowerment and child protection	51.	Women's participation in government institutions	$\frac{\text{Female workers in government institutions}}{\text{Number of female workers}} \times 100\%$	%	
	52.	Women's literacy rate aged ≥ 15 y.o	$\frac{\text{Women aged ≥ 15 years who are literate}}{\text{Total women aged ≥ 15 years}} \times 100\%$	%	
	53.	Women's employment rate	$\frac{\text{Number of female labourforces under employment}}{\text{Number of female labourforces}} \times 100\%$	%	
(15) Family planning	54.	Prevalence of active family planning participants	$\frac{\text{Number of family planning participants}}{\text{Number of couples of reproductive age}} \times 100\%$	%	
	55.	Poor families	$\frac{\text{Number of poor families}}{\text{Number of families}} \times 100\%$	%	

(16) Transportation	56.	Vehicle (road transportation)	$\frac{\text{Number of vehicles}}{\text{Number of passengers}} \times 100\%$...	
(17) Communication and information	57.	Local government website	Available or not available	Available/not available	
	58.	Exhibition	Number of exhibitions per year	...times	
(18) Land	59.	Width of land that has been certified	$\frac{\text{Width of land that has been certified}}{\text{Width of land that should be certified}} \times 100\%$	%	
	60.	State land cases that have been solved	$\frac{\text{Number of cases that have been solved}}{\text{Number of cases that have been registered}} \times 100\%$	%	
	61.	Location permits that have been solved	$\frac{\text{Number of location permits}}{\text{Number of proposals}} \times 100\%$	%	
(19) Nation unity and Politic	62.	Political education at local level	Number of political education activities	Number of activities	
	63.	Coaching on Civil Society Organisations (CSOs) and Youth organisations	Number of education activities (coaching) on Civil Society Organisations (CSOs) and Youth organisations	Number of activities	
(20) Regional autonomy	64.	Management information system of local government	Number of management information systems created by the respective local government	Number of information system	
	65.	Citizen satisfaction index	Existence of citizen satisfaction survey	Exists/does not exit	
(21) Society and village empowerment	66.	Family activator organisation ¹⁰¹	$\frac{\text{Number of active family activator organisations}}{\text{Number of total family activator organisations}} \times 100\%$	%	
	67.	Integrated Unit Service ¹⁰²	$\frac{\text{Number of active Integrated Service Unit}}{\text{Number of total Integrated Service Unit}} \times 100\%$	%	
(22) Social care	68.	Facilities to take care of orphans, the elderly and homeless	Number of facilities to take care of orphans, the elderly and homeless	Number of facilities	
	69.	Management of people having social welfare problems	$\frac{\text{Number of people having social welfare problems that are handled}}{\text{Number of people having social welfare problems}} \times 100\%$	%	
	70.	People having social welfare problems that received assistance	$\frac{\text{Number of people having social welfare problems that were given assistance}}{\text{Number of people having social welfare problems that should be provided with assistance}} \times 100\%$	%	
(23) Culture	71.	Art and culture festival/exhibition	Number of art and culture festivals/exhibitions	Number of festivals/exhibitions	
	72.	Facilities to organise art and culture festivals/exhibitions	Number of facilities to organise art and culture festivals/exhibitions	Number of facilities	
	73.	Artefacts and cultural/historical places that are protected and maintained	$\frac{\text{Number of artefacts and cultural or historical places that are protected and maintained}}{\text{Number of artefacts and cultural or historical places that are owned by local government}} \times 100\%$	%	
(24) Statistic	74.	Availability of local government statistics		Available/not available	

¹⁰¹ Family activator organisations exist at village level; thus one village usually has one family activator organisation (the members of the organisation are all women).

¹⁰² Similar to a family activator organisation, the integrated unit service also exists at village level. The common activities include, for example, the routine weight measurement of children under five years old and nutrition improvement programmes (monthly activity).

	75.	Availability of data on gross regional domestic product		Available/not available	
(25) Archive	76.	Application of standard archive system	$\frac{\text{Number of working units that have applied standard archive system}}{\text{Number of working units}} \times 100\%$	%	
	77.	Activity to improve the quality of human resources in archive management	Number of activities undertaken to improve the quality of human resources in archive management	Number of activity	
(26) Library	78.	Book collection available at local library	$\frac{\text{Number of book titles available at local library}}{\text{Number of books available in the local library}}$	Ratio	
	79.	Number of library visits	$\frac{\text{Number of visits to the library in 1 year}}{\text{Number of population that should be served}}$	Ratio	
Optional Functions					
(1) Marine and Fisheries	1.	Fish production	$\frac{\text{Fish production (IDR)}}{\text{Local target (ton)}} \times 100\%$	%	
	2.	Fish consumption	$\frac{\text{Fish consumption (kg)}}{\text{Target (kg)}} 100\%$	%	
(2) Agriculture	3.	Productivity of rice or other local staple food per Ha	$\frac{\text{Production of rice or other local staple food (ton)}}{\text{Total area of rice field or other local staple food (ha)}}$	Ratio	
	4.	Contribution of agricultural sector to Regional Gross Domestic Product	$\frac{\text{Contribution of agricultural sector to regional gross domestic product}}{\text{Total Regional Gross Domestic Product}} 100\%$	%	
(3) Forestry	5.	Rehabilitation of critical land and forest	$\frac{\text{The width of critical forest and land rehabilitated}}{\text{Total width of critical forest and land}} 100\%$	%	
	6.	Forest damage	$\frac{\text{The width of forests damage}}{\text{The width of forests}} 100\%$	%	
(4) Energy and mining resources	7.	Illegal mining	$\frac{\text{The width of illegal mining solved}}{\text{The width of illegal mining}} 100\%$	%	
	8.	Contribution of mining sector to Regional Gross Domestic Product	$\frac{\text{Contribution of mining sector to regional gross domestic product}}{\text{Total Regional Gross Domestic Product}} 100\%$	%	
(5) Tourism	9.	Tourist visits	Number of tourists per year	Number of tourists	
	10.	Contribution of tourism sector to Regional Gross Domestic Product	$\frac{\text{Contribution of tourism sector to regional gross domestic product}}{\text{Total Regional Gross Domestic Product}} 100\%$	%	
(6) Industry	11.	Contribution of industry sector to Regional Gross Domestic Product	$\frac{\text{Contribution of industry sector to regional gross domestic product}}{\text{Total Regional Gross Domestic Product}} 100\%$	%	
	12.	Industry growth	$\frac{\text{Number of industries in 201x} - \text{number of industry in 201x} - 1}{\text{Number of industry until 201x} - 1} 100\%$	%	

(7) Trade	13.	Contribution of trade sector to Regional Gross Domestic Product	$\frac{\text{Contribution of trade sector to regional gross domestic product}}{\text{Total Regional Gross Domestic Product}} \times 100\%$	%	
	14.	Net export	Export value –import value	US\$...	
(8) Transmigration	15.	Transmigration (independent initiative) ¹⁰³	$\frac{\text{Number of transmigration (independent initiative)}}{\text{Number of transmigration}} \times 100\%$	%	

¹⁰³ Transmigration or moving people from an area of high density population to a low density population area is usually a government-led programme.

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